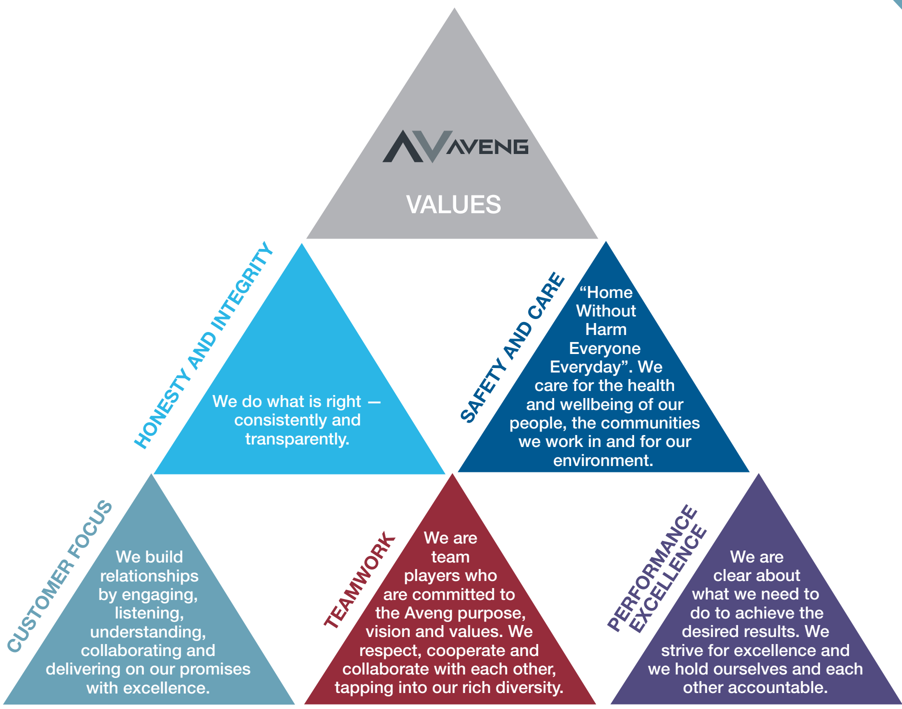
Integrated report 2018

Contents

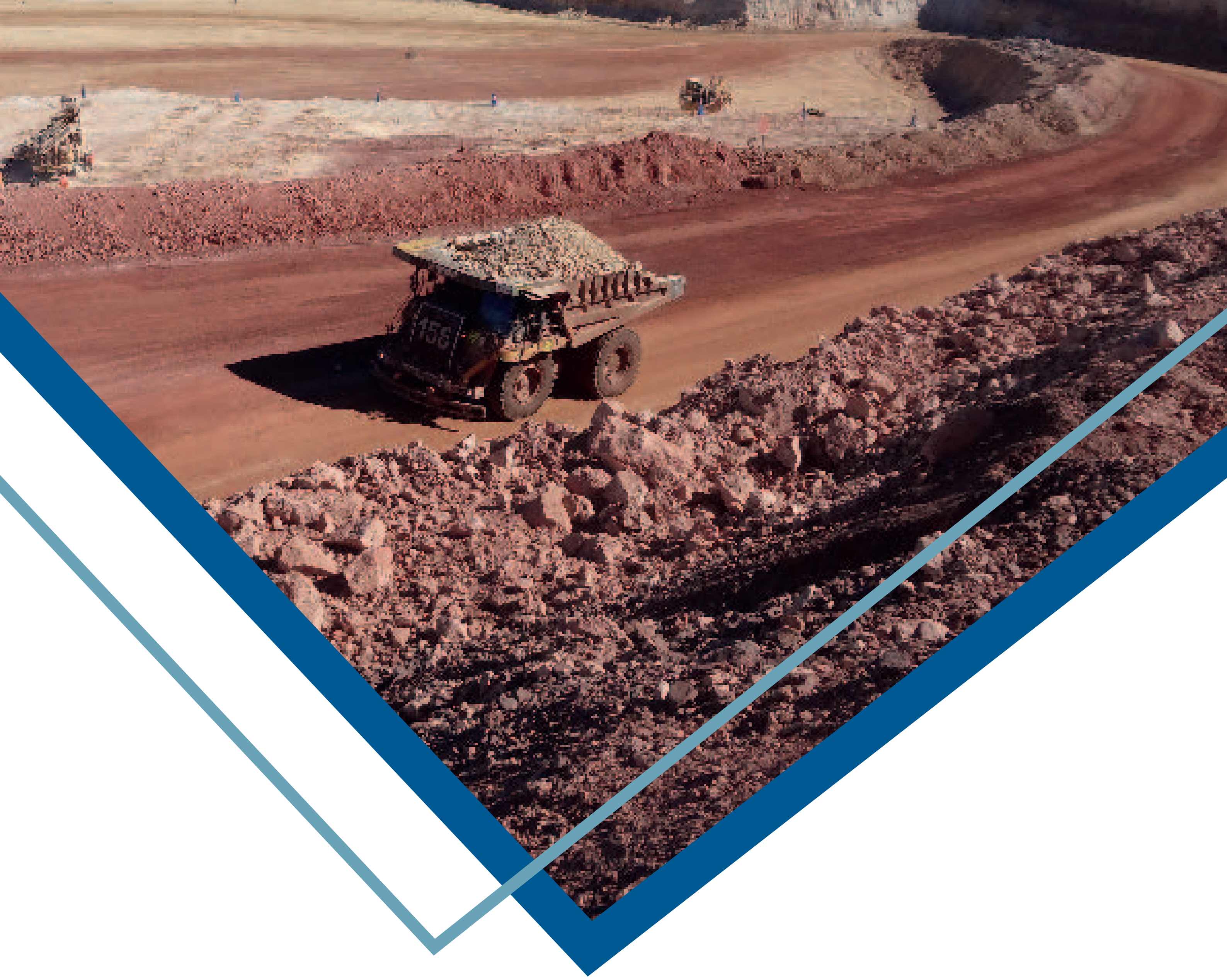


Navigating this report

This icon indicates where further information or supplementary reports can be found online.

This icon indicates where further information on a matter can be found elsewhere in this report.

www.aveng.co.za



Welcome to the Aveng integrated report

For more than 125 years, Aveng has evolved in character, capacity and reach and continues to make its mark across the globe. Its origins lie in modest construction projects but Aveng now boasts expertise in steel, engineering, manufacturing, mining, concessions, public infrastructure and water treatment. Aveng operates in a diverse range of sectoral and geographic markets.

Our primary geographic markets are southern Africa and Australia and we leverage our presence in these markets to pursue growth opportunities in East Africa and Southeast Asia. The Company employs some 14 158 people and has an annual turnover in excess of R30 billion.

Purpose
Providing a better life

Vision
To be a leader in the delivery of infrastructure, industrial and resource solutions in our core markets

Mission
We create and deliver infrastructure, industrial and resource solutions

Aveng 2018 suite of reports

Stay informed

This report is complemented by our online information and resources at **www.aveng.co.za**

About the report

Our reporting approach

This integrated report covers the financial period 1 July 2017 to 30 June 2018 and includes the performance of all of the Group's operations across all the geographies it operates in. Relevant developments between 1 July 2018 and the date of publication are included.

Our approach to materiality

Aveng defines the materiality of matters for reporting purposes as those matters that substantially affect the Group's ability to create and sustain value over the short, medium and long term. Information on the Group's material matters determination process and its primary material matters is available on pages 12 to 17.

Assurance and comparability

No significant changes have been made in the scope, boundary or measurement methods applied in this report and the rest of the suite of reports. There have been no restatements to comparatives unless otherwise stated in the relevant sections.

The summarised audited consolidated financial statements are extracted from the audited consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), the requirements of the South African Companies Act 71 of 2008, as amended, and the Listings Requirements of JSE Limited (JSE), and independently audited by Ernst & Young Inc.

Pursuant to the Group's commitment to transparency and effective communication, Aveng has provided disclosures in this report and the sustainability report on the website in line with best practice and internationally accepted standards, where possible.

	Integrated report	Audited consolidated annual financial statements
Contents	▸ Information on Aveng's material matters, business model, strategy, performance and outlook	▸ Audit and risk committee report ▸ Executive chairman's report ▸ Directors' report ▸ Report of the independent auditors ▸ Audited consolidated financial statements
Relationship of information between suite of reports	▸ Relevant cross-references to more comprehensive information across the suite of reports	▸ Summarised audited consolidated financial statements extracted from the audited consolidated financial statements included in the integrated report
Frameworks and guidelines applied	▸ King Code on Corporate Governance for South Africa 2016™ (King IV) ▸ International <IR> Framework ▸ Companies Act 71 of 2008 (Companies Act) ▸ JSE Listings Requirements	▸ International Financial Reporting Standards (IFRS) ▸ Companies Act ▸ JSE Listings Requirements
Web link	www.aveng.co.za	

Feedback

We welcome any feedback on our suite of reports to ensure that we continue to disclose information that is pertinent. Please refer questions or suggestions to **info@avenggroup.com**.

Certain sustainability information has been correctly extracted from the online sustainability report.

Independent assurance on selected non-financial metrics was obtained from our external auditors, Ernst & Young Inc. The limited assurance engagement was conducted in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) Assurance Engagements other than Audits or Reviews of Historical Financial Information and in accordance with ISAE 3410 Assurance Engagements on Greenhouse Gas Statements, issued by the International Auditing and Assurance Standards Board.

Aveng's combined risk management assurance model is encapsulated in its "three lines of defence" approach and is continuously improved, as reported on pages 12 and 13.

Board responsibility and approval statement

The Board, assisted by its audit and risk committee and other board committees, is ultimately responsible for overseeing the integrity of the integrated report. The Board has applied its collective mind to the preparation and presentation of the integrated report and concluded that it is presented in accordance with the International <IR> Framework.

The integrated report was approved by the Board and signed on its behalf by:

Eric Diack
Executive chairman and interim CEO

Sustainability overview	Corporate governance	Annual general meeting documents
▸ Safety ▸ Health ▸ Environment ▸ Reporting and governance ▸ Strategic people management ▸ South Africa transformation ▸ Independent limited assurance report	▸ Full corporate governance report ▸ King IV compliance register	▸ Code of business conduct ▸ Letter to shareholders ▸ Shareholders' diary ▸ Summarised audited consolidated financial statements ▸ Notice of annual general meeting (AGM) ▸ Explanatory notes: AGM ▸ Form of proxy ▸ Notes to the form of proxy ▸ Shareholders' analysis ▸ Corporate information
▸ Key elements of the sustainability overview incorporated into executive and operational reviews of the integrated report	▸ The full corporate governance report is included in the integrated report	▸ This statutory information is posted to shareholders prior to the AGM
▸ Aveng safety, health and environment, and human resource policies and frameworks ▸ Global Reporting Initiative (GRI) ▸ Carbon Disclosure Project (CDP), Water Disclosure Project (WDP) and Greenhouse Gas (GHG) protocol ▸ B-BBEE Codes of Good Practice ▸ Construction Sector Charter	▸ King IV ▸ Companies Act ▸ JSE Listings Requirements ▸ Employment Equity Act	▸ King IV ▸ Companies Act ▸ JSE Listings Requirements

About Aveng

Key features of 2018

"We have restructured Aveng's balance sheet to provide a solid platform from which to execute our strategic plan." Eric Diack, Aveng executive chairman.

Achieved sustainable capital structure

Decisive actions including a **R493 million rights issue**, early redemption of a **R2 billion convertible bond** and renegotiation of bank debt reduced **gross debt / equity** from **127%** to **40%**.

See pages 19, 21 and 28

Stabilised liquidity

Aveng's **capital market transactions**, combined with proceeds from the sale of property assets and more **efficient management** of **operational cash flow**, resulted in **R904 million** liquidity headroom at 30 June 2018.

See pages 28 and 29

Concluded non-core asset disposals

Aveng announced the sale of **non-core assets** and received **credible expressions** of interest in other non-core operations up for disposal.

See pages 22 and 29

McConnell Dowell returned to profitability

McConnell Dowell, a **core business,** returned to **profitability and generated positive cash flow** in 2018, following a significant turnaround strategy. New contracts are delivering **strong predictable performances** and McConnell Dowell is positioned for **sustained growth** in its markets.

See pages 34 to 38

Significant focus on growing order book

Aveng's **two-year contracting order book** declined by **28%** to **R17,9 billion** since December 2017, largely as a result of a decline in the value of McConnell Dowell's order book. McConnell Dowell, Moolmans and Aveng Grinaker-LTA are focused on securing **quality work** at targeted margins.

See pages 24 and 25

2018 at a glance

Performance overview

Revenue
R30,6 billion
(2017: R23,5 billion)

Liquidity
R493 million rights issue completed
R2 billion convertible bond redeemed early

Non-core asset impairment
R2,3 billion

Non-core asset sales of
R387 million
announced

Net operating loss
R401 million
(2017: R5,4 billion loss)

One fatality
(2017: two fatalities)
Under Aveng's direct control

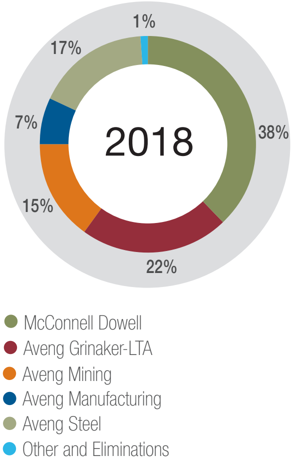
Operating free cash flow
R34 million outflow
Improved from R308 million outflow in 2017

All injury frequency rate
2,43
Improved from 3,28 in 2017

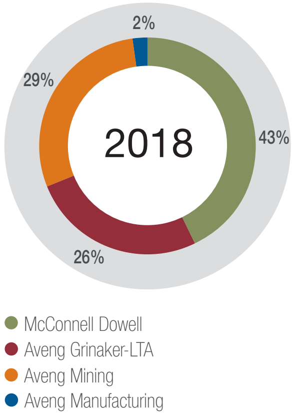
Two-year order book
R17,9 billion
(R25,1 billion in December 2017)

B-BBEE contributor status
Level 2
(2017: level 3)

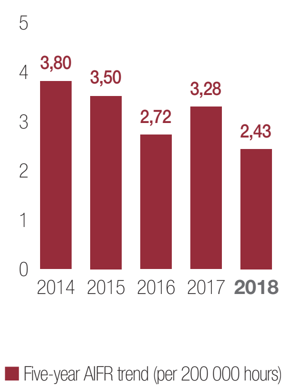
Revenue by operating group



Two-year order book by operating group

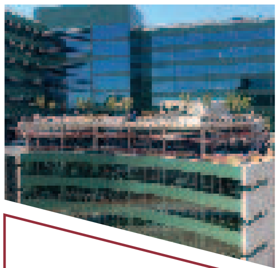


All injury frequency rate (AIFR)



Group organogram

Core business



Construction and Engineering: South Africa and rest of Africa

- Aveng Grinaker-LTA Buildings and Coastal
- Aveng Grinaker-LTA Civil Engineering
- Aveng Grinaker-LTA Mechanical and Electrical
- Aveng Water

Construction and Engineering: Australasia and Asia

- Australia
- Southeast Asia
- New Zealand and Pacific
- Built Environs

Mining

- Moolmans

Manufacturing and Processing

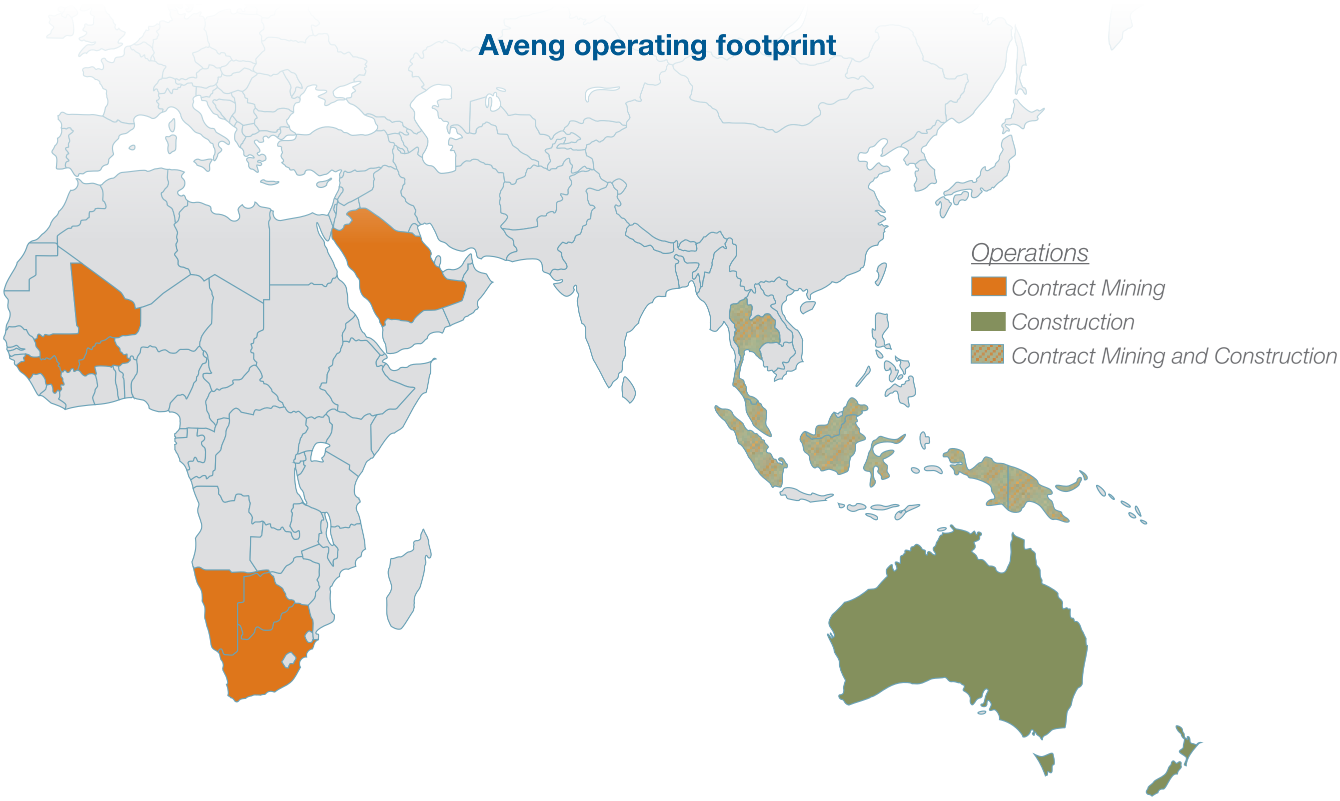
Aveng Trident Steel

- Aveng ACS
- Aveng DFC
- Aveng Duraset
- Aveng Infraset
- Aveng Rail

Our footprint

Aveng's primary geographic markets are South Africa and sub-Saharan Africa, Australasia and Southeast Asia.

As the Group transitions to an international infrastructure and resources business, its main market sectors will be contract mining in sub-Saharan Africa and West Africa, and construction in Australia, New Zealand and Southeast Asia, as illustrated on the map below.



Revenue by geographic market

Africa: 61%

Australia, New Zealand and Pacific: 30%

Southeast Asia: 9%

Additional information on Aveng's markets is available in the business environment report on page 13.

Our business model

INPUTS

CAPITALS

The key resources and relationships Aveng requires to optimally manage the business:

ACTIVITY

Financial

- Cash flow efficiency and working capital management
- Access to affordable borrowings and credit rating strength
- Shareholder value creation and ability to pay dividends
- Order book quality

CFO report

Human

- Effective decisive leadership
- Culture of honesty, accountability and safety
- Building management expertise
- Highly skilled project managers and appropriately skilled workforce
- Sub-contractors
- South African transformation needs

Chairman and CEO report; Sustainability report

Social and relationship

Effective stakeholder engagement and entrenching relationships with:

- Business reputation, brand association and funding
- Shareholders and investor community
- Suppliers and customers
- Employees, trade unions and communities
- Government and regulatory bodies

Material matters report

Intellectual

- Corporate memory, expertise and process knowledge in construction, engineering, mining and manufacturing
- Application of current technology and innovation
- Asset management expertise

Operational review

Manufactured

- Construction and mining fleets
- Manufacturing equipment in steel, concrete products, control systems, valves and rail products and services

Operational review

Natural

- Raw materials
- Energy needs for manufacturing
- Water use in operations

Operational review; Sustainability report

Value creation process

Aveng applies these resources and relationships in an ethical and responsible manner to create value for its stakeholders.

Aveng's core business activities are:

Construction and Engineering: Australasia and Asia
Dynamic, innovative multi-disciplinary engineering, construction, building, concessions and maintenance solutions

- **McConnell Dowell**
  Mega project capability and expertise, leveraging innovative experience

Mining
Open cut, shaft sinking and underground mining projects, including design, construction, project management, contract mining and operations management

- Moolmans

Aveng's non-core business activities are:

- **Construction and Engineering: South Africa and rest of Africa**
- **Aveng Grinaker-LTA**
  Specialised project capability and expertise in a multitude of service offerings
- **Manufacturing and Processing**
  Manufacture and supply of a diverse range of steel and concrete products, services and engineering solutions, and rail construction and maintenance
- Manufacturing brands, patents and know-how
- International sales networks
- Automotive steel capability

Additional information on the sectors Aveng serves is available on pages 34 to 53.

Aveng optimises its business model through the effective execution of its strategy to achieve its business objectives and vision. The Group is currently redefining its business model in line with its strategy to become an international infrastructure and resources business. Additional information on Aveng's strategy is available on pages 18 and 19.

SUPPORT PROCESSES

- Risk and commercial management
- Safety, health and environmental management
- Procurement management
- Human resource and leadership management
- Compliance, legal and governance
- Financial reporting, taxation and treasury

OUTPUTS

Key service and product solutions

Engineering (design and construct)

- Buildings
- Rail construction
- Airports
- Bridges
- Roads
- Tunnels
- Marine infrastructure/ports
- Earthworks
- Piling and lateral support
- Pipelines
- MEP installation
- Dams
- Mine shafts and underground development
- Open cut mining
- Oil and gas plants and pipelines
- Automation and control installation
- Water treatment plants

Operate and maintain services

- Facilities management
- Contract mining
- Mechanised track maintenance
- Automation and control support
- Valve repair

Manufactured products

- Asphalt and binders
- Concrete building supplies
- Geotech products
- Rail machinery
- Automation and control systems
- Vertical and horizontal supports
- Valves and submersible pumps
- Pipe fabrication

OUTCOMES

Impact on stakeholders

Financial

- Weak market conditions impacted the business negatively
- Substantially derisked balance sheet
- Net asset value before bond conversion: R6,4
- Net asset value after conversion: R0,23
- 28% decrease in order book to R17,9 billion (Dec 2017: R25,1 billion)
- Agreement reached with major funding banks to extend facilities
- No dividend declared

Human

- 55% reduction in the Group's employee complement due to restructuring (since December 2013)
- One fatality (2017: 2); an ongoing improvement trend in safety performance
- Sought to maintain stable operating environment while implementing strategic action plan

Refer to page 14

Social and relationship

- B-BBEE level 2 (valid until 18 October 2018) (2017: 3)
- R17,8 million invested in main socio-economic development projects
- Increased engagement with shareholders, employees, labour and communities

Intellectual

- Brand equity of established businesses, products and process knowledge
- Competitive advantage in water technology and mega project capability and experience
- Innovative building methods reduce cost and increase client value
- Asset management strengthens liquidity

Manufactured

- Deployed idle fleet to cater for increased demand
- Optimised non-core operations in preparation for disposal

Natural

- Zero major environmental incidents (2017: 0)
- Responsible management of raw material inputs mitigates environmental impact
- Continuous improvement in data accuracy
- Improved score in Water Disclosure Project

Board of directors

Executive directors

Eric Diack (61)*
Executive chairman and interim chief executive officer

BAcc, CA(SA), AMP Harvard and UCT

Appointed to the Board: December 2013

Experience: 31 years of industry and related experience

At Aveng for: 5 years

Board committees:

Chairman

IC ●

Member

RN TR ■

Adrian Macartney (50)
Group chief financial officer

BCom, BCompt (Hons), CA(SA)

Appointed to the Board: September 2014

Experience: 24 years of industry and related experience

At Aveng for: 4 years

Board committees:

● TR

Juba Mashaba (52)***
Group executive director

BA, LLB (Swaziland), Human Resources Executive Programme (University of Michigan Business School)

Appointed to the Board: October 2007

Experience: 23 years of industry and related experience

At Aveng for: 11 years

Board committees: ●

Independent non-executive directors

Sean Flanagan (58)
Independent non-executive director

BSc (Building)

Appointed to the Board: November 2015

Board committees:

AR** IC

SHE

TR

■

May Hermanus (58)
Independent non-executive director

BSc (Geology), MSc (Physical Metallurgy), Takemi Fellow, Harvard University

Appointed to the Board: September 2009

Board committees:

Chairman

SHE

SET

Philip Hourquebie (65)
Independent non-executive director

CA(SA), BCom (Hons), BAcc

Appointed to the Board: August 2015

Board committees:

Chairman

AR**

Member

IC RN

SET

■

Michael Kilbride (66)
Independent non-executive director

BSc (Hons) Mining Engineering (RSM, London University), MDP (Unisa), SEP (London Business School)

Appointed to the Board: July 2012

Board committees:

Chairman

TR

Member

AR** IC

SHE ■

Kholeka Mzondeki (50)
Lead independent director

BCom ACCA (UK)

Appointed to the Board: January 2014

Board committees:

Chairman

RN ■

Member

AR**

SET

AR *Audit and risk committee*

IC *Investment committee*

RN *Remuneration and nomination committee*

SET *Social, ethics and transformation committee*

SHE *Safety, health and environmental committee*

TR *Tender risk committee*

■ *Independent sub-committee*

● *Executive committee*

* *EK Diack attends all committee meetings by invitation*

** *Audit and risk committees were combined on 22 February 2018*

*** *JJA Mashaba resigned with effect from 31 August 2018*

Key and senior management

Hercu Aucamp (50)
Managing director of Aveng Steel

Experience: 29 years of industry and related experience

At Aveng for: 7 years

Scott Cummins (56)
Managing director of McConnell Dowell Corporation Limited

Experience: 28 years of industry and related experience

At Aveng for: 2 years

Bhekani Mdlalose (38)
Managing director of Aveng Grinaker-LTA

Experience: 18 years of industry and related experience

At Aveng for: 8 years

Suzie Nkambule (30)
Managing director of Aveng Water; strategy executive of Aveng Grinaker-LTA

Experience: 9 years of industry and related experience

At Aveng for: 9 years

Stuart White (54)
Managing director of Aveng Mining

Experience: 37 years of industry and related experience

At Aveng for: 37 years

Michael Canterbury (54)
Group executive: Strategy and investor relations; managing director of Aveng Capital Partners

Experience: 27 years of industry and related experience

At Aveng for: 2 years

Grant Stock (49)
Commercial executive

Experience: 23 years of industry and related experience

At Aveng for: 3 years

Edinah Mandizha (38)
Group company secretary

Experience: 12 years of industry and related experience

At Aveng for: 6 years

Material matters

Aveng has formalised and strengthened its ability to identify, evaluate and manage risks and opportunities.

Aveng defines materiality of matters for reporting purposes as: matters that materially affect the Group's ability to create and sustain value over the short, medium and long term. Aveng's material matters determination process is largely informed by the International Integrated Reporting Council (IIRC) guidance whereby:

Identifying relevant internal and external matters

Aveng enterprise risk management

Aveng recognises that it needs to be financially stable and sustainable to succeed in creating value for its stakeholders. This requires:

- appointment and retention of highly skilled and motivated employees with requisite skills to fulfil their roles;
- embedding a culture of high performance in the operations;
- implementing policies and procedures with appropriate oversight; and
- commitment to a formal process of risk and opportunity management.

Risk and opportunity management approach

Aveng operates in complex environments where risk and opportunity are inherent in all of our business activities; therefore, it is impossible to completely eliminate risk. Our approach to managing risk and opportunity is based on a "three lines of defence" combined assurance model.

- The first line of defence involves early identification, quantification and assessment, and mitigation of risks and opportunities.
- The second line of defence monitors the effectiveness of the management of risks and opportunities.
- The third line of defence provides independent assurance, through external and internal audit, that the overall risk and opportunity management process is functioning appropriately.

Governance oversight

The Board's audit and risk committee acts as the governing body for the combined risk management assurance model.

The audit and risk committee (the committee) oversees the activities of all three lines of defence and receives reports from the Group commercial executive on the efficacy of the three lines of defence model, with the committee receiving reports from internal and external audit (third line of defence). The committee reviews all material risks, major and problematic projects with specific focus on delays, changes in costs, commercial claims, margins and other items of concern. Peer reviews and "breaking news" on underperforming contracts are brought to the attention of the committee. Concerns raised by the committee are communicated to the relevant operating groups for management actions. Lessons learnt from underperforming or highly successful projects are presented to the committee, providing a feedback loop to enable continuous improvement in processes and project execution.

Given that tendering is a critical process in the project lifecycle, there is a robust and staged approval process with all major bids and high-risk projects presented to the Board's tender risk committee, a sub-committee of the Board's audit and risk committee, which must satisfy itself that appropriate processes were followed in the bid preparation and that risks were considered and appropriately transferred or mitigated prior to bid submission. Particular attention is paid to the key commercial terms and the relevant operating group receives a mandate specifying the terms under which it may conclude a contract.

The audit and risk committee oversees the activities of the external and internal audit functions and receives input on the adequacy of financial reporting and control mechanisms. It also receives input on material risk issues that could impact the financial results.

Key business risks

Key business risks are identified as internal or external risks that have the potential to cause significant financial loss, or affect the safety and wellbeing of employees, matters which may fundamentally undermine the Group's competitive position and adversely impact its reputation.

A group risk register is updated quarterly and reported to the Board and the committee. This information is used to determine the strategic interventions and mitigation measures required to minimise the impact of risks.

Business environment

Aveng operates in a challenging external environment across the infrastructure investment, mining and manufacturing markets in South Africa, other markets in sub-Saharan Africa, Australasia and Southeast Asia.

Some of the main risks and opportunities affecting the Group's sectoral and geographic markets are discussed below.

South African economy

The South African economy remains subdued with persistent delays in public sector infrastructure investment. This is compounded by political volatility, policy uncertainty and concerns about the governance of state-owned entities. Most of Aveng's domestic market sectors have been adversely impacted by these factors which are likely to continue influencing investor confidence in 2019, despite the favourable leadership changes that occurred in the ruling party.

To mitigate these external impacts, Aveng seeks to:

- allocate resources to market sectors that offer growth opportunities;
- expand into growth markets beyond South Africa; and
- strengthen engagement with key clients.

Rest of Africa

The signs of recovery in many other economies in Africa following a loss of growth momentum in 2016 should have a positive effect on our business development activities in sub-Saharan Africa. While the Group has experienced limited success in securing new work in sub-Saharan Africa, the region offers sound medium to long-term opportunities in mining.

Australasia and Southeast Asia

Increasing public and private sector investment in infrastructure development in Australia and Southeast Asia contributed to an improvement in the performance of McConnell Dowell. This growth trend is expected to continue for the next five years, supported by an improvement in the commodity cycle. However, competition for available work, particularly in South East Asia, remains a prominent feature of the region.

While not as buoyant as Australia and Southeast Asia, New Zealand continues to offer opportunities in McConnell Dowell's core markets. Larger capital projects in the marine, water and transport sectors are returning to the medium-term pipeline.

Stakeholder engagement

Aveng pursues open, relationship-driven communication with stakeholders to promote confidence, mutual trust and shared growth. The Group recognises that proactive and regular engagement with stakeholders is critical in understanding their views and concerns. The ability to effectively identify material matters relating to stakeholders, including risks and opportunities, and effectively respond to them will enable the Group to develop and sustain positive relationships with all key stakeholders.

Aveng's diversity of stakeholders includes employees, shareholders and the investment community, financial institutions, clients, joint venture partners and subcontractors, suppliers and service providers, trade unions, government and regulators, industry bodies, communities and the media.

As our relationship with each stakeholder group directly impacts the sustainability of our business, continuous engagement takes place across the Group at corporate and operational levels. Aveng carefully considers feedback from stakeholders, and makes every effort to reflect on lessons from the feedback in the Group's future policies and actions, where appropriate.

Various engagement methods are used across the Group, including a stakeholder engagement plan and report-back process that enables operating groups to identify their material stakeholders based on their potential to have a positive or negative impact on the business.

During 2018, our stakeholder engagement plan focused on:

- aligning stakeholders with the strategic plan Aveng implemented to address material short-term risks;
- building and sustaining strong relationships with stakeholders; and
- monitoring and proactively managing shareholder expectations.

Material matters continued

The following table sets out existing methods of engagement with our key stakeholders, including our response to stakeholder concerns and expectations:

Stakeholders	Methods of engagement	Stakeholder concerns and expectations	Response to concerns and expectations
Employees South African operations – 3 289 salaried – 8 055 waged Australasian and Asian operations – 411 salaried – 1 089 project – 1 314 waged	Routine forums, one-on-one meetings, performance reviews, leadership conferences, training sessions, wellness days, safety walk-abouts, employee newsletters and the company intranet.	▸ Job security during restructuring ▸ Redeployment from corporate office to non-core businesses ▸ Diminished career	▸ Regular communication to update employees on the status of the strategic plan ▸ Specific engagements to update operating groups and business units
Shareholders, investment community and financial institutions South Africa-based (98%) North America-based (7%) Europe-based and rest of world (8%) Lenders and analysts	Integrated and sustainability reports, trading updates and statements, results presentations and roadshows, AGM, site visits, one-on-one meetings with major shareholders and the Aveng website.	▸ Financial stability ▸ Operational underperformance ▸ Retention of key talent	▸ Increased frequency of communication and engagement to provide progress updates on execution of the strategic plan
Customers and clients Private and public across all sectors covered in the Group's business model	Customer meetings, site visits, publications, conference calls, website, branded mailers, contracts and service level agreements.	▸ Aveng's short-term viability and long-term sustainability	▸ Increased frequency of communication and engagement to provide progress updates on execution of the strategic plan
Trade unions South African operations: NUM, NUMSA, UASA, AMCU and Solidarity Australasia and Asian operations: AWU and CFMEU	Each operating group has its own agreements with its respective trade unions and engages through various methods and at various intervals	▸ Job losses during restructuring and disposal of non-core businesses	▸ Ongoing, scheduled engagements between business units and trade unions on operational matters and restructuring
Government and regulatory bodies National, provincial, regional and local levels of government, construction regulatory boards, Competition Commission, Construction Sector Charter Council, JSE, Fair Work Commission	Submission of compliance reports, formal and informal meetings, consultations, conferences, presentations, and written communication	▸ Compliance with legislation across various geographies and industries in which Aveng operates	▸ Engagement through Tirisano Trust established to implement transformation projects in Competition Commission settlement agreement
Industry bodies SAFCEC, MBSA and SEIFSA	Representation on key industry bodies, leadership meetings, correspondence, newsletters and sponsorships	▸ Influence of industry bodies on public policy	▸ Participation in various structures of SAFSEC
Communities Local communities in which Aveng operates	Each operating group has its own processes with the communities in which it operates and engages through various methods and at various intervals	▸ Employment, skills development and preferential procurement ▸ Unprotected strike action on community matters ▸ Political contestation impacts project labour stability	▸ Continue to train emerging suppliers in communities through Enterprise Development initiative
Media Trade and national media	Media releases, interviews and company events	▸ Regular engagement ▸ Communication of company performance	▸ Increased monitoring and engagement with media

Additional information is available in our business model on pages 8 and 9.

Step 2:

Evaluating importance of matters identified

Aveng risk management, stakeholder engagement and the business environment inform the material matters.

Magnitude of effect on the Group

Once the relevant material matters are identified, they are assessed based on their potential impact on Aveng. The assessed impact of these material matters focuses on:

1. Impact on the safety of our people
2. Loss of profit or increase in capital cost
3. Delays in achieving strategic business objectives
4. Legal ramifications
5. Environmental impact
6. Reputational damage

Likelihood of occurrence

These matters are assessed according to the likelihood that they will occur based on the following ranges:

1. Rare chance of occurrence (1% to 3%)
2. Unlikely chance of occurrence (3% to 10%)
3. Possible chance of occurrence (10% to 30%)
4. Likely chance of occurrence (30% to 60%)
5. Almost certain (60% to 100%)

In instances where a material matter has already occurred, lessons learnt are undertaken to ascertain the likelihood of reoccurrence and to ensure that correct processes are implemented to mitigate reoccurrence.

Quantitative and qualitative considerations

Quantitative considerations focus largely on financial impacts (loss of profit), an increase in capital cost and the ability to achieve business objectives. Qualitative considerations focus primarily on safety, legal, environmental and reputational impacts. These are assessed based on the likelihood of occurrence.

Step 3:

Prioritising matters

After identifying potential material matters, Aveng performed a correlation exercise. Several sources were consulted to determine how often the risks already identified appeared in other sources that relate to Aveng and the industries it operates in. These included investor feedback, mega-trends, emerging risks and opportunities, Aveng strategy and business model, and geographic and sector outlook. The more prevalent the risks and opportunities were in different sources, the greater the evaluation of these issues against qualitative and quantitative factors which informed the likelihood and the impact of these matters on Aveng.

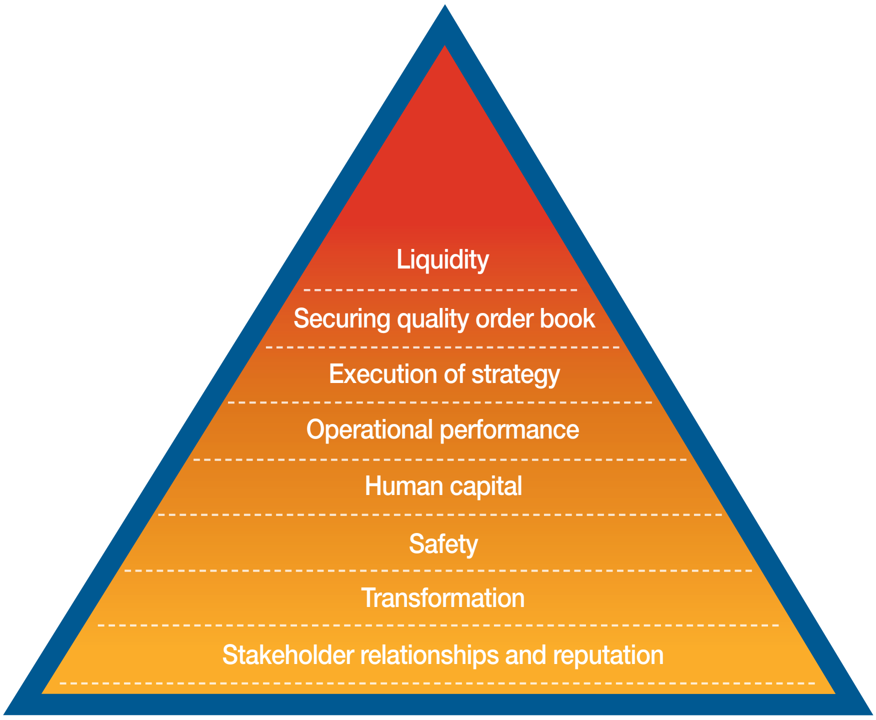
Furthermore, the Board considered what constitutes a material matter to the Group with further interrogation conducted through various forums, such as the Board and board committee meetings.

The identified material matters were ranked based on their potential probability of occurring in the Group as well as their potential quantitative and qualitative impact on the Group.

The resultant matters were then plotted on a heat map to demonstrate that only the most material matters emerge.

Focus on the most important matters

The diagram below lists the top business risks emerging from the enterprise risk management for the period. These risks are discussed more fully on pages 16 and 17.



Material matters continued

Material matters

Our material matters which the Group reviews regularly in line with the recommendations of King IV, and our strategic responses, are discussed below:

	Material matter	How we mitigated or managed material matters
1	**Liquidity** The maintenance of sufficient working capital through the business cycle influences credit facilities and the ability to raise cost-effective borrowings.	▸ Successfully raised R493 million in a rights issue ▸ Settled the majority of outstanding claims to address balance sheet risk and uncertainty ▸ Negotiated an amended common terms agreement with South African lending banks and secured additional facilities on extended terms ▸ Completed early redemption of R2 billion convertible bond post year end. ▸ Strengthened cash flow forecasting and liquidity management ▸ Disposed of non-core property assets and Aveng Rail post year end. ▸ Stabilising non-core operations prior to disposal
2	**Securing quality order book** Aveng's order book declined by 28% to R17,9 billion (December 2017: R25,1 billion) as a result of challenging market conditions in South Africa, a highly competitive environment in McConnell Dowell's core markets and a more selective approach to tendering.	▸ Increased focus on balancing order book growth and project risk profiles ▸ Robust application of the three lines of defence model to improve tendering procedures ▸ Focused on winning projects where Aveng has a record of technical experience and successful execution ▸ Renewed focus on market intelligence and business development to increase order book ▸ McConnell Dowell is progressing a substantial pipeline of work that is being tendered on an early client involvement (ECI) basis which takes longer but reduces project risk ▸ The withdrawal from two projects and difficulty securing new work timeously impacted Moolmans' order book. The long-term nature of many Moolmans projects mitigates downturns, but new work has a long gestation period ▸ Implemented an enhanced business development strategy at Moolmans as part of a structured Group-led intervention ▸ Allocation of resources to growth opportunities, cost reduction in line with market demand and increased client engagement
3	**Execution of strategy** Delayed or non-execution of the strategy will hamper the Group's ability to create value in the longer term.	▸ Concerted effort across Aveng to execute the strategy, including workstreams and weekly progress reviews of delivery against planned outcomes ▸ A number of planned corporate and capital-raising actions were successfully executed, and agreement was reached on the sale of the Jet Park and Vanderbijlpark properties and Aveng Rail ▸ Interest in the other non-core operations has been received from credible buyers

Material matter	How we mitigated or managed material matters
4 **Operational performance** Operational performance drives Aveng's financial performance.	▸ A strategic intervention at McConnell Dowell improved operational and financial performance ▸ Loss-making projects impacted the performance of Moolmans. Agreement was reached with clients to mitigate the financial impact, where possible Further cost optimisation and a structured Group-led intervention is under way to improve performance ▸ Aveng Grinaker-LTA was impacted by ongoing challenges in Civil Engineering, while Building encountered challenges in closing out three large projects. Mechanical and Electrical and Aveng Water delivered planned results. New management is addressing underperformance ▸ Sustained weakness in most of its markets impacted the financial performance of Aveng Manufacturing. A structured plan was implemented to improve efficiency and track performance against strategy ▸ Aveng Trident Steel returned to profitability and pursued new opportunities in challenging market conditions
5 **Human capital** Specialist skills are required to deliver projects successfully. Loss of critical skills affects performance with an associated negative impact on earnings.	▸ Underperformance in some operations and the uncertainty imposed by a disposal process have increased the risk of losing key and critical staff in South Africa ▸ An internal communication plan was implemented to ensure continuous engagement with employees during the reorganisation process
6 **Safety** Aveng operates in a diverse, complex environment and employs a large workforce. The safety of employees is a core value that is integral to the way the Group conducts its business and will not be compromised.	Aveng's key safety focus areas and objectives are: ▸ Monitoring conformance to Aveng SHE standards ▸ Implementation of initiatives to reduce safety incidents ▸ Measuring performance against the Aveng SHE Plan on a Page
7 **Transformation*** Drop in scorecard impacts both future and current South African business operations.	▸ Developing individual business unit scorecards in support of non-core disposal strategy ▸ Focus on mechanisms to improve enterprise and supplier development scores ▸ Constant evaluation of restructuring impact on employment equity
8 **Stakeholder relationships and reputation** Stakeholder expectations can impact Aveng's ability to create and sustain value.	▸ High-level executive engagement with funding banks and shareholders ▸ Proactive communications strategy and increased internal communication

** Specific to South Africa.*

Strategy

Aveng's long-term strategy is to become an international infrastructure and resources group with a footprint in developing and fast-growing regions that have access to its chosen markets.

In response to significant challenges in recent years management conducted a strategic review in 2018 to enable the Group to address material short-term risks while continuing to execute its long-term strategy.

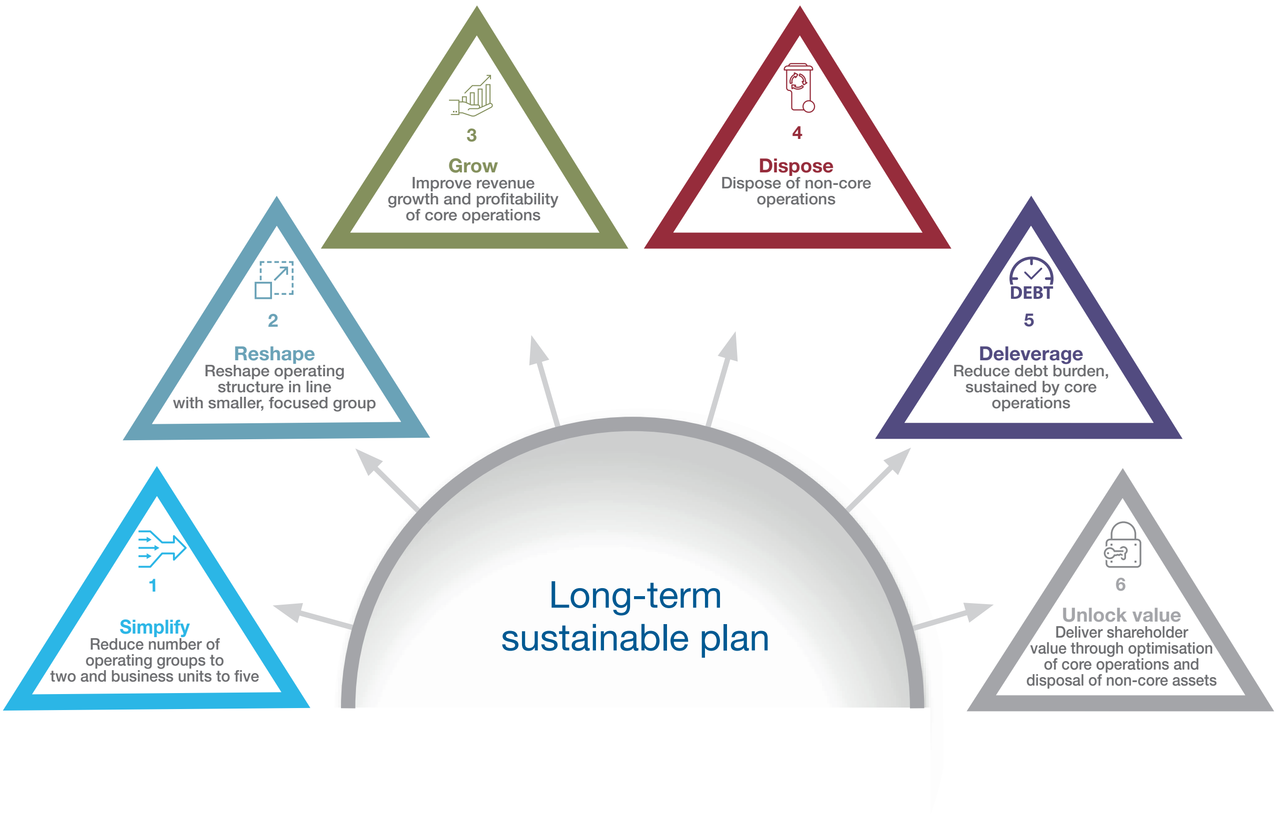
The objectives of the review were to:

- Identify **core businesses** and **assets** that would **support** the **strategy**
- Develop a **sustainable future capital** and **funding model** for the Group.

The development of an action plan to achieve these objectives took into account the following challenges Aveng was experiencing:

- A **complex business** with **five** operating groups and **24 business units**
- Various **underperforming**, **subscale** or **loss-making** businesses
- Sub-optimal head office and shared services
- An **unsustainable capital structure**
- A **R3,3 billion debt** burden, with terms mismatch for R2 billion convertible bonds due in July 2019
- A **share price** that significantly **undervalued** the Group.

A six-step action plan was developed to execute the strategic review over three years:



The three-year plan to transition to an international infrastructure and resources group and optimise stakeholder value is being implemented in the following stages:

1. Ensure a long-term, sustainable capital structure
2. Create liquidity by selling non-core assets
3. Unlock value from core businesses

The following table summarises the progress achieved in executing the action plan and the key actions planned for 2019:

Objective		2018 performance	2019 planned performance
1 Capital restructure	Capital markets transaction: Rights offer	▸ Implemented R500 million rights offer in June 2018 ▸ R493 million of capital raised in rights offer, representing 98,6% participation by shareholders	▸ Completion of capital markets transaction and renegotiation of bank debt provides strong platform for long-term growth strategy ▸ Strong focus on liquidity management
	Capital markets transaction: Early bond redemption	▸ New debt instrument of R460 million issued and proceeds used to execute a specific buy-back of R657 million nominal value of convertible bonds at 30% discount ▸ Interest on bonds of R96 million capitalised ▸ Remaining outstanding bonds redeemed through issue of new shares of R1,4 billion issued at 10c/share on 25 September 2018	
	Restructure of bank debt	▸ Finalised terms of restructured bank funding, extending term to 2020. Secured additional facilities of R400 million	
2 Non-core assets disposals	Announced	▸ On 2 August 2018, Aveng announced sale of two properties for a combined value of R254 million – Entered into binding term sheet for sale of Jet Park offices for R211,2 million – Agreed to offer of R42,6 million for Vanderbijlpark property ▸ On 3 October 2018, Aveng announced sale of Aveng Rail for R133 million	▸ Complete sale of Aveng Rail ▸ Complete sale of other non-core assets by June 2019
	In progress	▸ Disposal processes for Steel and other Manufacturing businesses at various stages, from expressions of interest to due diligence ▸ Piecemeal exit of Grinaker-LTA under way with various expressions of interest received	
3 Core operational performance	McConnell Dowell	▸ Reported positive EBIT and operating cash flows in 2018, with consistently good project execution ▸ Continues to perform in line with expectations ▸ Claim settlements progressing well with 20 of 24 claims settled at or about expected outcomes	▸ Convert ECI opportunities and win new work in targeted markets
	Moolmans	▸ Experienced some extremely poor contract underperformances in second half of 2018 ▸ Contracts exited or renegotiated ▸ Group-led turnaround intervention in progress	▸ Ensure interventions continue to deliver improved performance

Additional information on the execution of the strategy is provided in the executive chairman and interim CEO review on pages 20 to 25, the chief financial officer's report on pages 26 to 29 and the operational report on pages 34 to 53.

Executive chairman and interim CEO review

Our intervention to stabilise Aveng yielded critically important results in 2018. We reduced the Group's debt to more manageable levels and eased financial constraints on our operational performance. Other strategic initiatives that will enable Aveng to return to a path of sustainable value creation, are well advanced.

Eric Diack – Executive chairman and interim CEO

Overview

We commenced the 2018 financial year in a precarious financial position, following the lower than expected QCLNG award which necessitated a material write down of uncertified revenue, urgent negotiation of additional bank debt and an extensive strategic review. Our position was compounded by difficult operating conditions in all of our domestic markets which restricted our ability to generate adequate cash flow from our South African operations. However, McConnell Dowell in Australia returned to profitability as its turnaround strategy positioned it to capitalise on a resurgence of growth in its markets.

Strategy

Implementing the strategic action plan

In February 2018, we announced the results of our strategic review following a thorough and rigorous assessment of the entire Group to identify businesses and assets that support Aveng's long-term strategy to become an international infrastructure and resources group with a footprint in developing and fast-growing regions.

As part of the strategic review, we decided to dispose of assets identified as non-core, including the Grinaker-LTA and Trident Steel operating groups, individual Manufacturing businesses, and certain property and investment assets, allowing management to focus on the core operations of McConnell Dowell and Moolmans. This will remove complexity from the organisation, eliminate non-core losses and allow the Aveng head office to be restructured in a manner that allows for a more efficient operating model.

We developed a six-step action plan to implement the results of the strategic review over three years from February 2018. The action plan involves:

- simplifying Aveng by reducing the number of operating groups to two and business units to five;
- reshaping the operating structure in line with a smaller, focused group;
- focusing on improving the revenue growth of the two core operations;
- disposal of non-core operations in a judicious process, taking account of the needs of all stakeholders, including employees;
- deleveraging the balance sheet by reducing debt to a sustainable level;
- unlocking shareholder value through the optimisation of core operations and non-core disposals.

An overview of key developments in 2018 and the first quarter of 2019 is provided below.

Deleveraging the balance sheet to ensure a sustainable capital structure

The six stages of our strategic plan were launched simultaneously, but our most urgent priority was to reduce Aveng's unsustainable debt levels, which were largely the result of historic operating losses. At 30 June 2018 the Group's gross debt amounted of R3,3 billion (including bank debt of R1,3 billion and convertible bonds of R2 billion). The looming repayment of the bonds and liquidity requirements to sustain our operations placed significant constraints on our ability to operate effectively and unlock shareholder value. Uncertainty about the Group's ability to refinance the bonds when they matured in July 2019 contributed to the decline in the Aveng share price. To address these concerns, we implemented the following urgent actions:

- **Rights offer**
  In July 2018, Aveng successfully concluded a rights offer to qualifying Aveng shareholders. In an expression of confidence in the Group's strategy, 98,6% of the rights offer shares were taken up, with the result that R493 million was raised to reduce the Group's net debt position and strengthen its balance sheet.

- **Early redemption of bonds**
  In April 2018, Aveng announced plans to redeem the R2 billion convertible bonds before they matured. Having engaged extensively with our bondholders, shareholders and lenders and secured their support, Aveng proceeded to buy back R657 million of the existing convertible bonds at 70% of the principal amount (30% discount), capitalising R96 million in interest costs. The buyback was funded by a new debt instrument of R460 million, the terms of which rank pari passu with Aveng's bank debt, excluding super senior facilities. The remaining R1,4 billion bonds were settled through the issue of ordinary shares at 10 cents per share. The transaction was concluded on 25 September 2018.

- **Bank debt**
  In the final quarter of 2018, Aveng secured an additional R400 million in bank debt from its consortium of lenders. While the arrangement is subject to a common terms agreement, the repayment period has been extended to 2020 and is therefore less onerous than our 2017 arrangement.

- **Cash generated by the operations**
  Improved cash management procedures were implemented across Aveng to improve the accuracy of cash flow forecasting which, in turn, allowed for more efficient planning and management of cash flow throughout the Group.

Subsequent to the year end, Aveng's gross debt reduced to R1,8 billion (2017: R3 billion) as a consequence of these actions. This lowered our gross debt/equity ratio from 127% to 40%.

Additional information on our financial position is provided in the chief financial officer's report on pages 26 to 29.

While our capital market activities were under way, Aveng received an expression of interest from Murray & Roberts to acquire 100% of Aveng for R1 billion and redeem the existing convertible bonds before maturity. The Board mandated management to explore the merits of the proposal to merge the two businesses. On 8 August 2018, Murray & Roberts withdrew its acquisition proposal, citing as its reason for doing so, the decision of the Takeover Special Commission to overturn a prior decision by the Takeover Regulation Panel allowing Murray & Roberts to develop the proposed merger.

Executive chairman and interim CEO review continued

Unlocking value by optimising core operations

The selection of McConnell Dowell and Moolmans as our core operations was based primarily on our strategy to become an international infrastructure and resources group. Key factors in our decision included reputation and brand equity, management teams capable of delivering attractive returns, the ability to sustain sound relationships with quality clients and the strong long-term growth potential of their chosen markets.

McConnell Dowell

McConnell Dowell returned to profitability in 2018 and generated a positive cash flow from its operations. McConnell Dowell embarked on a more customer-centric settlement approach to resolve long-outstanding uncertified revenue and claims. This yielded good results, with 20 of the 24 identified legacy claims settled largely in line with the expected values. McConnell Dowell's project performance improved with greater consistency of execution.

Moolmans

Moolmans' operating performance was significantly below expectations, notably in the second half of the year. This led to the implementation of a comprehensive Group-led turnaround intervention that included an immediate and urgent focus on improving contract performance, negotiating contractual terms and where necessary, exiting contracts. These interventions resulted in greater stability by year end and positive progress subsequent to the year end. This intervention is ongoing as there is still much to be achieved.

Additional information on our core operations is available on pages 34 to 45.

Creating liquidity through the sale of non-core assets

The completion of our capital market activities enabled us to turn our full attention to the disposal of non-core businesses and assets.

The strategic review revealed that while the operations identified as non-core are inherently good businesses, it is likely that they would be more successful in the hands of different owners. The intent is therefore to sell these businesses as going concerns, with Aveng remaining fully engaged in supporting them and driving improved performance until new owners are introduced. This approach will ensure a sustainable future for employees, customers and suppliers of these businesses, while allowing Aveng to realise acceptable value.

Management obtained independent valuations in support of the fair value assessments and is confident that Aveng will be able to realise acceptable value for these assets. There has been significant interest from credible buyers for the majority of the businesses earmarked for sale.

To date, Aveng has reached agreement on the following disposals:

- In August 2018, Aveng announced that it had successfully sold its Vanderbijlpark and Jet Park properties for a total value of R254 million. The disposal of the Jet Park property remains subject to shareholders' approval.
- In October 2018, Aveng announced that it had entered into a sale and purchase agreement with 100% black owned Mathupha Capital for Aveng's Rail business for a cash consideration of R133 million.

The proceeds from these disposals will be used to strengthen the financial position of the Group and will contribute to the overall reduction of Aveng's debt.

Shareholders will be kept informed of developments in the disposal process.

Aveng Grinaker-LTA

Significant progress was made in the turnaround of Aveng Grinaker-LTA following the appointment of new leadership in the second half of the financial year. While revenue grew marginally, a combination of underperformance on major road and building projects, and further retrenchment costs, resulted in a disappointing loss of R367 million (2017: R198 million adjusted loss). The Mechanical and Electrical, Building South and Water business units delivered positive results. Aveng Grinaker-LTA is embedding sound operational controls and has entered the 2019 financial year with 62% of its order book secured.

Aveng Manufacturing

While two of the Aveng Manufacturing business units performed profitably, the operating group's other business units exposed to the mining and rail sectors continue to experience headwinds, resulting in an overall operating loss of R196 million. New leadership developed a focused strategy to address underperformance, including closure of non-performing sites, rationalisation of production facilities and reductions in costs and capacity. The disposal of Manufacturing business units was accelerated and the sale of Aveng Rail was announced in October 2018.

Aveng Trident Steel

Aveng Trident Steel returned to profitability and generated positive cash flow despite ongoing challenges in the steel industry. This was largely as a result of an improved margin, despite lower volumes, and stronger control of costs and efficiencies. Growing demand from the automotive industry countered the impact on sales volumes of lower domestic steel consumption. Higher average steel prices and continuous rightsizing of operations were key drivers of increased profitability.

Additional information on the non-core operations is available on pages 46 to 53.

Unlock shareholder value

Our intention is to unlock significant value for shareholders by:

- Continuing to optimise the two core operations through consistent performance that generates growth in EBITDA (earnings before interest, taxation, depreciation and amortisation);
- Improving liquidity and deleveraging the balance sheet through well-managed disposals of non-core operations.

Governance and board composition

The foundation of good governance is ethical and effective leadership which guides an organisation through the development of strategy, implements the strategy with appropriate frameworks, policies and processes, monitors and measures performance against strategic goals and demonstrates accountability and transparency through disclosure.

The Board unanimously embraces the principles of the King Code of Governance and adopted King IV during 2017. Board members and executives received training in the four key outcomes of ethical culture, legitimacy, good performance and effective control espoused by King IV. The Board subscribes to full compliance with applicable laws and regulations in all jurisdictions in which we operate.

Although the composition of our Board and Board committees changed, we maintained an appropriate balance of skills, knowledge, experience, and independence, but our diversity was impacted by the reduction in the number of directors from 12 to seven.

On 4 February 2018 Peter Erasmus passed away. Peter joined the board in 2011 and served as an independent non-executive director and chairman of the risk committee. Mahomed Seedat and Thoko Mokgosi-Mwantembe did not stand for re-election as directors at the AGM on 24 November 2017. Thoko joined the Board in 2010 and Mahomed joined the Board in 2012 and was chairman from 2015 until 2017. Both served as independent non-executive directors. Subsequent to the year end, Juba Mashaba resigned as group executive director with effect from 31 August 2018. Juba joined Aveng and the Board in 2007.

The Board offered its condolences to the family of Peter Erasmus and expressed its appreciation for Peter's contribution to Aveng. We thank Mahomed, Thoko and Juba for their service to Aveng and wish them well in their future endeavours.

May Hermanus succeeded Mahomed as chairman of the social, ethics and transformation committee and Kholeka Mzondeki succeeded Thoko as chairman of the remuneration and nomination committee. The risk and audit committees were combined on 21 February 2018 with Philip Hourquebie as chairman. Sean Flanagan was appointed to the safety, health and environment committee.

More detailed information on governance is available in the governance report on pages 56 to 69.

Safety

The safety of people in our workplaces remains one of our primary material matters. Despite the implementation of our strategic review and the continuous optimisation of our operations, we maintained a trend of steady improvement in safety performance. This is attributable to the implementation of a revised safety, health and environment strategy and our increased focus on leadership visibility in workplaces, employee awareness and accountability for maintaining safe work environments.

However, we did not meet our aim of zero harm. On 18 June 2018, we experienced a fatality at Aveng Grinaker-LTA's R61 All Saints Road project, where Anele Nwelende, a general worker employed from the local community was struck by a vehicle used to transport employees from the work site to another location. The Board and management extended our condolences to the family of the deceased and took care of their needs. The accident was investigated and we increased our efforts to mitigate the risk exposure of employees working on road projects.

> Our immediate focus is to further stabilise and improve operations at each of our businesses, and to ensure the timeous disposal of the identified non-core businesses and assets at acceptable value.

Aveng adopted reporting on the total recordable injury frequency rate (TRIFR) in line with global best practice as this KPI provides more accurate recording and classification of injuries. Our TRIFR improved to 0,91 (2017: 1,10), exceeding the target of 0,98, while our all injury frequency rate improved to 2,43 (2017: 3,28). Aveng's resilience in near-miss reporting improved, with 95% of near-misses addressed, and we achieved 86% of our targeted 1 642 leadership visits to work sites by managing directors and their direct reports. Some of our operations achieved exceptional safety performances, the most notable of which were:

- McConnell Dowell's Loyang plant yard – 16 years lost-time injury (LTI)-free
- Aveng Water's Erongo water treatment plant in Namibia – eight years LTI-free
- Aveng Trident Steel Rosslyn branch – seven years LTI-free
- Aveng Manufacturing Automation and Control Solutions – seven years LTI-free.

Executive chairman and interim CEO review continued

Additional information on safety management is available in the sustainability report at **www.aveng.co.za**.

Strategic people management

2018 was a difficult and unsettling year for many of our employees, particularly those who work in our South African businesses. In addition to the ongoing optimisation of our operations in line with lower market demand, they experienced the operationalisation of our strategy to reshape the corporate function and dispose of non-core businesses. This required the decentralisation of corporate office services to business units to ensure they have adequate capacity to function as standalone businesses, ready for disposal.

Throughout this process, Aveng continued to invest in the development and upskilling of employees, particularly in the key skills that support a high-performance culture.

Additional information on strategic people management is available in the sustainability report at **www.aveng.co.za**.

Transformation

Aveng is a level 2 broad-based black economic empowerment (B-BBEE) contributor as measured against the generic B-BBEE codes of good practice. The Group's commitment to transformation is premised on the notion that it is "the right thing to do". We remain resolute in our compliance with the spirit and intent of the principles of B-BBEE.

The reshaping of the Group's structure and our disposal strategy required the decentralisation of our transformation strategy to ensure that each of our businesses remains compliant and adequately equipped to achieve its B-BBEE targets and strategies.

Against this backdrop, we ensured that our South African operations continue to prioritise the Group's key transformation focus areas, including the development of black professionals, with increased emphasis on black women, increased access to Aveng's procurement expenditure for black owned and black women-owned exempted micro-enterprises and qualifying small enterprises, and ongoing support for socio-economic development in mathematics and science education and community upliftment.

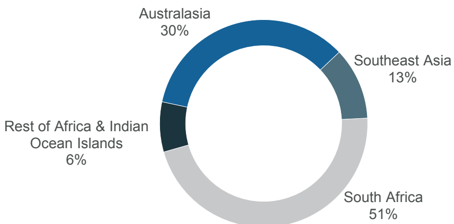
Additional information on transformation management is available in the sustainability report at **www.aveng.co.za**.

Order book

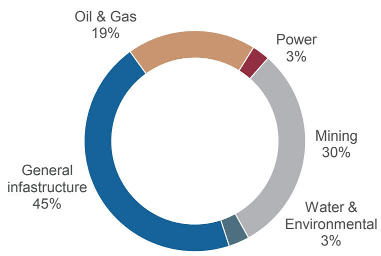
	Two year order book	
	FY2018 Rm	FY2017 Rm
McConnell Dowell	**7 704**	15 250
Moolmans	**5 273**	7 754
Aveng Grinaker-LTA	**4 682**	6 832
Aveng Manufacturing	**314**	79
TOTAL	**17 973**	29 915

	Secured Work (%)
	FY2019 %
McConnell Dowell	**62%**
Moolmans	**88%**
Aveng Grinaker-LTA	**62%**
TOTAL for Group	**67%**

TWO YEAR ORDER BOOK BY GEOGRAPHY



TWO YEAR ORDER BOOK BY SECTOR



Aveng commenced the new financial year with a two-year order book of R17,9 billion at 30 June 2018 (2017: R29,9 billion), 28% lower than the R25,1 billion reported at 31 December 2017. This is largely due to a 37% decrease in McConnell Dowell's AUD order book, translating into a 34% decline in Rand terms. The geographic split of the order book at year end was 43% Australasia and Asia (December 2017: 46%; June 2017: 51%), 51% South Africa (December 2017: 46%; June 2017: 41%) and 6% in the rest of Africa and Indian Ocean Islands (December 2017 and June 2018: 8%).

At 30 June 2018, McConnell Dowell's two-year order book was AUD0,8 billion (December 2017: AUD1,2 billion). The order book is of a higher quality due to improved project execution and elimination of zero contribution legacy contracts. Consequently, we have a higher level of confidence that McConnell Dowell will deliver the gross margins embedded in the order book. Moolmans' order book decreased by 21% to R5,3 billion at 30 June 2018 (December 2017: R6,7 billion). Aveng Grinaker-LTA's order book decreased by 24% since December 2017. Securing quality work at targeted margins remains a priority for the operating group.

Acknowledgement

Our 2018 results do not reflect the tremendous effort that has gone into restoring stability and creating a foundation for growth.

The Board worked tirelessly, meeting 20 times with 97% attendance, to create the opportunities that will unlock value for Aveng. On behalf of the Board, I would like to express our gratitude to the core team of executives, senior management and employees who implemented our strategic plan while navigating extremely difficult operating conditions and the uncertainty of the change process our organisation is undergoing.

I would also like to thank our shareholders, bondholders, lending banks, suppliers and partners for their continued support.

Outlook and prospects

The Aveng Board and management continuously evaluate opportunities to maximise cash flows and unlock value for Aveng stakeholders. The completion of the capital markets transactions and conclusion of the revised common terms agreement provides the necessary stability to execute the remaining steps of the strategy. Our immediate focus is to further stabilise and improve operations at each of our businesses, and to ensure the timeous disposal of the identified non-core businesses and assets at acceptable value.

The order books of McConnell Dowell and Moolmans have declined by 34% and 21% respectively, and need to be replenished. Winning new work will remain a key focus for both businesses.

The markets serviced by McConnell Dowell offer significant opportunities, but remain competitive. The approximate value of work pursued by McConnell Dowell through early client involvement (ECI) projects is approximately AUD1,25 billion and the likelihood of converting this to contract awards is higher than it would be with traditional tendering methods.

Moolmans will enhance its business development focus and processes and is pursuing a number of opportunities within a competitive market. While the long-term nature of open cut contracts mitigates the impact of downturns, they take longer to adjudicate. As new contracts or contract renewals are awarded in an improving commodity market, pricing will also improve.

Moolmans will continue to rebalance its geographic, client and commodity portfolios to spread risk, with a strong focus on increasing its work outside South Africa, while continuing to optimise its business. Despite the temporary headwinds, Moolmans' management believes it has a strong platform for value creation.

The Board has reaffirmed its support for the strategy and the core businesses, supported by an executive team that is delivering on the strategic action plan.

Chief financial officer report

By reducing Aveng's debt from R3,3 billion to R1,8 billion and strengthening its capital structure in 2018, we have established a sound platform to execute the strategy and deliver shareholder value.

Adrian Macartney – Group CFO

Overview

Aveng faced significant challenges in recent years that impacted its financial performance. The Group experienced declining demand in most of its operating sectors, particularly infrastructure development, mining and rail in South Africa. This was compounded by operational underperformance and poor cash flow generation which restricted financial liquidity and increased the debt burden to unsustainable levels.

Aveng commenced the 2018 financial year with funding constraints, ongoing losses and a weakened position following the significant impairment, in hindsight, of over-valued uncertified revenue claims due to a difficult environment for claim settlements.

Following a change in executive leadership, we embarked on an extensive Group-wide strategic review to address these challenges and create the liquidity necessary to build a sustainable balance sheet and address the convertible bonds that were due to mature in July 2019.

Strategic interventions were implemented across the Group and have yielded positive results, notably the announced disposals of non-core assets and particularly the post year end capital markets transactions and conclusion of the revised common terms agreement with our lending banks. These are addressed in the executive chairman and interim CEO's review. This report details Aveng's financial performance during the year under review and the financial consequences of the strategic actions we have implemented to date.

Financial performance

Aveng reported a headline loss of R1,7 billion (2017: R6,4 billion) and a net loss of R3,5 billion (2017: R6,7 billion). This included an impairment charge of R2,3 billion for an adjustment in the valuation of non-core assets that were reclassified as Held for Sale.

The impairment charge was reflected in the basic loss per share of 653,9 cents (2017: 1 245,1 restated cents loss per share) but not in the headline loss per share of 311,6 cents (2017: 1 197,0 restated loss per share).

Statement of comprehensive earnings

Group	2018 Rm	2017 Rm
Revenue	**30 580**	27 442*
Gross margin (%)	**5,9**	7,2*
Net operating losses	**401**	113*
Impairment charge	**(2 300)**	(278)
Net interest	**(439)**	(444)

** Adjusted for the significant impact of the changes in estimate and the results of certain contract awards.*

Revenue growth was largely attributable to improved performances across most of McConnell Dowell's business units and a 13% increase in Moolmans' revenue.

Moolmans, Civil Engineering and Manufacturing reported lower margins.

Following the reclassification to Held for Sale, the realisable value of assets identified for disposal was reassessed and the measurement criteria was changed to fair value less costs to sell. As a result, Aveng recognised the following impairment charges:

- R1,3 billion against goodwill, intangible assets, property, plant and equipment;
- R195 million against equity accounted investments; and
- R807 million against fair value adjustments on assets transferred to Held for Sale.

Despite higher utilisation and increased cost of facilities, the interest cost declined. This was due to a non-recurring interest benefit of R118 million.

Operational performance

	Revenue 2018 Rm	Revenue 2017 Adjusted Rm	Net operating earnings / (loss) 2018 Rm	Net operating earnings / (loss) 2017 Adjusted Rm
McConnell Dowell*	**11 716**	9 293	**103**	(129)
Moolmans	**4 713**	4 184	**11**	219
Aveng Grinaker-LTA*	**6 622**	6 080	**(376)**	(188)
Aveng Manufacturing	**2 132**	2 444	**(196)**	51
Aveng Steel	**5 221**	5 492	**29**	(54)
Other and eliminations	**176**	(51)	**19**	(12)
	30 580	27 442	**(401)**	(113)

** Adjusted for the significant impact of the changes in estimate and the results of certain contract awards.*

A return to profitability was driven by improved revenue and project execution.

Profitability was heavily impacted by underperformance on three key contracts.

Positive results from Mechanical and Electrical, Building South, Water and GEL were offset by ongoing underperformance on major road contracts in Civil Engineering, a disappointing result from Building, and further retrenchment costs.

While ACS and DFC performed profitably, other business units exposed to the mining and rail sectors continued to report losses due to lower revenues and weak operating conditions.

A return to profitability was supported by growing automotive demand, higher steel prices and operating cost reductions.

Detailed information is available in the operational review on pages 34 to 53.

Aveng incurred capital expenditure of R786 million (2017: R955 million), allocating R648 million (2017: R820 million) to replace and R138 million (2017: R135 million) to expand property, plant and equipment. The bulk of the capital expenditure was spent on:

- McConnell Dowell projects in Australia and Southeast Asia (R136 million);
- New equipment and component replacement for Moolmans (R507 million);
- Aveng Manufacturing (R69 million).

Due to the reclassification of the non-core assets, assets Held for Sale increased to R4,8 billion (2017: R122 million) and liabilities Held for Sale increased to R4,1 billion (2017: zero).

Amounts due from contract customers (non-current and current) improved to R4,0 billion before Held for Sale (2017: R4,5 billion) due to the receipt of the QCLNG claim settlement and improved collections in Aveng Grinaker-LTA and Moolmans.

Deferred tax assets were impaired by R509 million, following the change in measurement criteria and reclassification of the non-core assets to Held for Sale. The change necessitated an assessment of the expected future utilisation of the deferred tax assets. Although assessed losses do not expire, management's estimate is based on the expected utilisation of the deferred tax assets in the foreseeable future.

Chief financial officer report continued

Operating free cash flow amounted to an outflow of R34 million (2017: R308 million outflow) due to:

- McConnell Dowell's cash inflow of R202 million for early contract receipts, receipt of the QCLNG settlement, and improved project performance;
- Aveng Grinaker-LTA's positive cash inflow from the Water, Building South and Mechanical and Electrical business units;
- Cash outflow of R79 million at Moolmans after capital expenditure;
- Cash outflow of R107 million at Aveng Manufacturing due to underperformance;
- Net capital expenditure of R495 million;
- Net finance charges paid of R288 million; and
- Taxation of R95 million.

Aveng had cash of R2,1 billion (2017: R2,0 billion) at year end, R568 million (2017: R625 million) of which is held in joint arrangements. Advance payments that will be used in the short term amount to R85 million (2017: R146 million), while short term debt repayments are R255 million (2017: R704 million). After working capital requirements of R800 million (2017: R800 million) and unutilised facilities of R536 million (2017: R1,4 billion). The net debt position was R1,2 billion (2017: R1 billion) at year end. The Board considers the short term liquidity of the Group to be satisfactory with liquidity headroom of R904 million.

LIQUIDITY

	Jun'18 Rm	Dec'17 Rm	Jun'17 Rm
Net Cash	**2 076**	2 439	1 996
South African operations	**633**	793	759
McConnell Dowell	**1 443**	1 646	1 237
Borrowings	**3 287**	2 994	3 066
Convertible bond	**1 929**	1 874	1 823
South African operations	**1 154**	960	322
McConnell Dowell	**204**	160	921
Net (debt)	**(1 211)**	(555)	(1 070)

	Jun'18 Rm	Dec'17 Rm	Jun'17 Rm
Net Cash	**2 076**	2 439	1 996
Less:			
Joint operations	**(568)**	(711)	(625)
Advance payments	**(85)**	(142)	(146)
Short term facilities	**(255)**	(700)	(703)
Minimum working capital requirements	**(800)**	(800)	(800)
Liquidity surplus / (requirement)	**368**	86	(278)
Unutilised facilities	**536**	421	1 356
Liquidity headroom	**904**	507	1 078

Ensuring a sustainable capital structure

Liquidity and cash management received a significant focus, with the assistance of independent external consultants. The process was implemented across the South African operations to improve the accuracy of cash flow forecasting which, in turn, allowed for more efficient planning and management of cash resources. This intervention had a positive impact on the Group's liquidity in the second half of the year.

A key initiative of the strategic plan was to conclude capital market transactions that would ensure a long-term sustainable capital structure for Aveng.

On 4 July 2018, Aveng successfully concluded a rights issue for R493 million. The Group negotiated a revised common terms agreement with its South African lending banks which enabled it to renew its lending facilities, obtain additional funding of R400 million to improve the liquidity position, and extend the funding terms to 2020. The rights issue increased facilities and the renegotiated terms removed the immediate pressures on liquidity and provided certainty about the availability of ongoing banking facilities.

After the financial year end on 25 September 2018, Aveng concluded the early redemption of its convertible bonds. The early bond redemption removed a net amount of R1,5 billion of debt and the related interest burden from the balance sheet, bringing Aveng's debt to more sustainable levels.

The following table demonstrates the positive impact of the rights issue and bond conversion on Aveng's financial position after the financial year end.

ILLUSTRATIVE EXTRACT OF STATEMENT OF FINANCIAL POSITION (SUBSEQUENT TO RIGHTS ISSUE AND BOND CONVERSION)

	Jun'18 Rm	**Jun'18 adjusted Rm**	
Gross Debt	3 309	**1 830**	*Reduced interest burden*
Cash	2 076	**2 569**	*Excludes proceeds of property sales*
Net cash / (debt)	(1 233)	**739**	*Overall effect R2 billion*
Equity	2 594	**4 574**	
NAV per share (Rand) (Based on 20 billion shares)	0,13	**0,23**	*Unlock potential*
Gross Debt to Equity	127%	**40%**	*Balance sheet stability*

Aveng's plan to create liquidity from the sale of non-core assets gained further momentum after the financial year end, with agreements reached on the following transactions:

- **Jet Park property:** Aveng entered into a binding term sheet on 2 August 2018 for the sale of its Jet Park offices in Boksburg to Equites Property Fund for R185,69 million (net of commission), with a possible top up of R26 million, subject to a consent to obtain a waiver on building height limitations on the property. The Group will enter into a triple net lease on the property for a maximum of 24 months, with market-related monthly rental of R1,1 million, subject to an annual escalation of 8%, and the right to terminate the lease with three months' notice. The sale is subject to shareholder approval.
- **Vanderbijlpark property:** Aveng accepted an offer of R42,6 million for the property from Stodasat following an auction. The transfer is expected to be completed by November 2018, subject to the conveyancing process.
- **Aveng Rail:** Aveng entered into an agreement to sell Aveng Rail to 100% black-owned Mathupha Capital for a cash consideration of R133 million. Aveng will establish a limited liability private company to which the assets and the short-term and long-term borrowings of Aveng Rail will be transferred. Mathupha Capital will then acquire the new entity from Aveng.

The directors of Aveng believe that the Group remains a going concern based on the conclusion of the revised common terms agreement, the rights issue, the early bond redemption, ongoing progress in the sale of non-core assets and other initiatives the Group has embarked on.

Outlook

Management will continue to improve the quality of the Group's balance sheet as we make further progress in implementing the strategic action plan.

Key focus areas in 2019 will be completing the non-core disposals by June 2019 and improving value from our core businesses, McConnell Dowell and Moolmans through improved performance. In particular, we will prioritise order book growth and a turnaround in Moolmans' financial performance.

Disposal processes for Trident Steel and the other Manufacturing businesses are at various stages, ranging from expressions of interest, to non-binding offers. There have been several expressions of interest in Grinaker-LTA and the Group's piecemeal exit from this business is under way.

Management financial review and key ratios*

Consolidated statement of financial position	2018 Rm	2017 Rm	2016 Rm	2015 Rm	2014 Rm
Investment property	**–**	–	–	–	86
Property, plant and equipment	**3 010**	4 611	4 843	5 626	6 346
Goodwill and other intangibles	**147**	613	667	681	984
Equity-accounted investments	**73**	334	100	151	306
Infrastructure investments	**142**	265	177	778	–
Financial investments	**–**	–	–	–	190
Deferred taxation	**747**	1 290	1 858	1 580	1 403
Inventories	**255**	2 085	2 211	2 529	2 793
Receivables**	**3 532**	6 371	11 542	12 759	14 137
Cash and bank balances	**2 391**	1 996	2 450	2 856	4 136
Assets held for sale	**4 773**	122	1 484	559	607
Total assets	**15 070**	17 687	25 332	27 519	30 988
Total equity	**2 594**	6 058	13 556	12 998	13 396
Deferred tax liabilities	**49**	319	266	221	257
Payables***	**4 745**	8 090	8 279	11 735	14 271
Payables other than contract-related	**–**	154	–	102	197
Borrowings and other liabilities	**3 287**	3 066	2 984	2 463	2 867
Bank overdrafts	**315**	–	–	–	–
Liabilities held for sale	**4 080**	–	247	–	–
Total liabilities	**12 476**	11 629	11 776	14 521	17 592
Non-controlling interests	**9**	8	37	23	11
Total equity and liabilities	**15 070**	17 687	25 332	27 519	30 988

** *Including trade and other receivables, amounts due from contract customers and derivative instruments.*
*** *Including trade and other payables, amounts due to contract customers, derivative instruments, taxation payables and employee-related payables.*

Working capital*	2018 Rm	2017 Rm	2016 Rm	%
Inventory	**2 045**	2 085	2 211	(6%)
Trade and other receivables	**1 580**	1 840	2 058	(11%)
Amounts due from contract customers	**3 964**	4 468	9 464	(53%)
Current trade and other payables	**(5 722)**	(5 909)	(5 886)	–
Amounts due to contract customers	**(1 489)**	(1 351)	(1 322)	2%
Net working capital	**378**	1 133	6 525	<100

* *Reflects working capital before Held for Sale adjustments.*

Uncertified revenue and claims**	2018 Rm	2017 Rm	2016 Rm
Uncertified claims and variations	**1 646**	1 760	6 584
Contract contingencies	**(490)**	(701)	(390)
Contract and retention receivables	**2 808**	3 409	3 270
Amounts due from customers	**3 964**	4 468	9 464
Progress billings received	**(1 404)**	(1 205)	(1 014)
Amounts received in advance	**(85)**	(146)	(308)
Amounts due to customers	**(1 489)**	(1 351)	(1 322)
Net amounts due from contract customers	**2 475**	3 117	8 142
Foreign exchange impact	**8**	(462)	910

* *This financial information is presented based on management's analysis of the performance of its business and does not conform to IFRS in its entirety.*
** *Reflect uncertified revenue and claims before Held for Sale adjustments.*

Consolidated statement of comprehensive income	2018 Rm	2017 Rm	2016 Rm	2015 Rm	2014 Rm
Revenue	**30 580**	23 456	33 755	43 930	52 959
Gross earnings	**1 798**	(3 135)	2 495	2 364	3 635
Other earnings	**106**	206	591	471	302
Operating expenses	**(2 292)**	(2 305)	(2 808)	(3 063)	(3 171)
Earnings / (loss) from equity-accounted investments	**(13)**	4	(132)	(60)	33
Operating (loss) / earnings	**(401)**	(5 230)	146	(288)	799
South African government settlement	**–**	(165)	–	–	–
Net operating (loss) / earnings	**(401)**	(5 395)	146	(288)	799
Impairment on non-financial assets*	**(2 300)**	(278)	(333)	(621)	(831)
Profit on sale of subsidiary	**–**	–	–	777	–
Profit on sale of property, plant and equipment	**47**	4	592	–	–
Operating (loss) / earnings before financing transactions	**(2 654)**	(5 669)	405	(132)	(32)
Finance earnings	**246**	198	211	177	136
Convertible bond	**(251)**	(237)	(225)	(167)	–
Other finance expenses	**(434)**	(405)	(327)	(316)	(319)
(Loss) / earnings before taxation	**(3 093)**	(6 113)	64	(438)	(215)
Taxation	**(426)**	(626)	(129)	(80)	(161)
(Loss) / earnings for the period	**(3 519)**	(6 739)	(65)	(518)	(376)
Loss from continuing operations	**(1 050)**	(6 238)	–	–	–
Loss from discontinued operations	**(2 469)**	(501)	–	–	–
Other comprehensive earnings / (loss) for the period:					
Exchange differences on translation of foreign operations	**48**	(773)	786	(372)	402
Movement in insurance and other reserves	**–**	–	–	28	65
Total comprehensive earnings / (loss) for the period	**(3 471)**	(7 512)	721	(862)	91
(Loss) / earnings for the year attributable to:					
Equity-holders of Aveng Limited	**(3 523)**	(6 708)	(101)	(460)	(381)
Non-controlling interests	**4**	(31)	36	(58)	5
(Loss) / earnings for the period	**(3 519)**	(6 739)	(65)	(518)	(376)
Total comprehensive (loss) / earnings attributable to:					
Equity-holders of Aveng Limited	**(3 473)**	(7 481)	676	(804)	86
Non-controlling interests	**(2)**	(31)	45	(58)	5
	(3 471)	(7 512)	721	(862)	91
Determination of headline (loss) / earnings					
(Loss) / earnings for the year attributable to equity-holders of Aveng	**(3 523)**	(6 708)	(101)	(460)	(381)
Headline earnings adjustment	**1 844**	259	(198)	(118)	802
Headline (loss) / earnings	**(1 679)**	(6 449)	(299)	(578)	421

** For FY18 this includes impairment loss on goodwill, intangible assets, property plant and equipment (R1 298 million); impairment loss on equity-accounted investments (R195 million); and fair value adjustment on properties and disposal groups classified as Held for Sale (R807 million).*

Management financial review and key ratios* continued

Consolidated statement of cash flows	2018 Rm	2017 Rm	2016 Rm	2015 Rm	2014 Rm
Cash from operating activities	**430**	(622)	(1 834)	(1 535)	(310)
Cash from investing activities	**(464)**	314	709	508	(1 088)
Operating free cash flow	**(34)**	(308)	(1 125)	(1 027)	(1 398)
Cash from financing activities	**133**	(23)	384	(57)	1 323
Net decrease in cash and bank balances before foreign exchange movements on cash	**99**	(331)	(741)	(1 084)	(75)
Returns and productivity					
Net (debt) / cash position	**(1 211)**	(1 070)	(534)	393	1 269
CPI (%)	**4,4**	1,9	4,7	4,7	6,6
Current ratio (times)	**1,0**	1,1	1,8	1,5	1,3
Dividend cover (times)	**–**	–	–	–	–
Effective tax rate before impairment (%)	**(13,8)**	(10,2)	201	(54,3)	26,1
Margin – gross (%)	**5,9**	6,7	7,4	5,4	6,9
– net operating earnings (%)	**(1,3)**	(1,6)	0,4	(0,7)	1,5
Property, plant and equipment – expansion capital expenditure	**138**	135	175	175	384
– replacement capital expenditure	**625**	793	319	649	677
Operating free cash flow before expansion capital expenditure (Rm)	**104**	(102)	(950)	(852)	(1 014)
Headline earnings growth (%)	**74**	(<100)	48,3	(<100)	(9,7)
Return on invested capital (%)**	**(7,0)**	(65,8)	0,7	(1,9)	4,8
Return on equity (%)	**(135,8)**	(100,9)	(2,2)	(4,5)	3,1
Number of employees at year-end	**14 158**	15 495	16 948	25 466	31 768

*** Comparatives restated in line with Aveng definition for return on invested capital.*

Operating free cash flow	2018 Rm	2017 Rm	2016 Rm	%
Construction and Engineering: Australasia and Asia	**202**	(583)	(2 583)	(77)
Mining	**(79)**	(41)	363	>(100)
Construction and Engineering: South Africa and rest of Africa	**27**	422	364	16
Manufacturing	**(107)**	(76)	(29)	>(100)
Steel	**3**	59	304	(81)
Other	**(80)**	(89)	456	>(100)
Total	**(34)**	(308)	(1 125)	>(100)

Net cash	2018 Rm	2017 Rm	2016 Rm
Cash	**2 076**	1 996	2 450
South African operations	**633**	759	1 009
McConnell Dowell	**1 433**	1 237	1 441
Borrowings	**3 287**	3 066	2 984
Convertible bond	**1 929**	1 823	1 731
South African operations	**1 154**	322	348
McConnell Dowell	**204**	921	905
Net (debt)	**(1 211)**	(1 070)	(534)

Liquidity	2018 Rm	2017 Rm	2016 Rm
Cash	**2 076**	1 996	2 450
Less:			
Joint operations	**(568)**	(625)	(696)
Advance payments	**(85)**	(146)	(308)
Short-term facilities	**(255)**	(703)	(768)
Minimum working capital requirements	**(800)**	(800)	(900)
Liquidity surplus / (requirement)	**368**	(278)	(222)
Unutilised facilities	**536**	1 356	1 935
Liquidity headroom	**904**	1 078	1 713

** This financial information is presented based on management's analysis of the performance of its business and does not conform to IFRS in its entirety.*

Share performance (cents per share)	2018 Rm	2017 Rm	2016 Rm	2015 Rm	2014 Rm
Headline (loss) / earnings*	**(311,6)**	(1 197,0)	(75,2)	(144,3)	112,5
Diluted headline (loss) / earnings*	**(306,4)**	(1 185,5)	(74,4)	(143,8)	104,7
(Loss) / earnings*	**(653,9)**	(1 245,1)	(25,4)	(114,8)	(101,9)
Diluted (loss) / earnings*	**(643)**	(1 233,1)	(25,1)	(114,4)	(94,8)
Cash generated by operating activities	**813**	(124)	(440)	(368)	(74)
Net asset value	**623**	1 456	3 253	3 119	3 215
Dividend	**–**	–	–	–	–
Closing share price	**14**	585	351	575	2 315
Number of shares (million)*					
In issue	**416,2**	416,7	416,7	416,7	416,7
Weighted average	**538,8**	538,8	397,4	400,6	374,0
Diluted weighted average	**551,8**	–	402,1	402,1	402,1
Rand to AU dollar					
Closing	**10,12**	10,05	10,97	9,38	10,03
Average	**9,98**	9,75	11,14	9,58	9,54
Rand to US dollar					
Closing	**13,71**	13,07	14,73	12,17	10,68
Average	**13,32**	12,90	15,04	12,29	10,64

* *Due to the bonus element of the rights issue that was closed on 29 June 2018, the earnings per share was impacted in the current year and needed to be restated for 2017.*

** *Market capitalisation based on shares in issue as at year end.*

Refer pages 98 to 127 for more detailed financial information contained in the summarised audited consolidated financial statements.

Operational review

Scott Cummins
Chief executive officer
McConnell Dowell

McCONNELL DOWELL
CREATIVE CONSTRUCTION

Construction and Engineering: Australasia and Asia

McConnell Dowell is a major engineering, construction and maintenance contractor, delivering complex projects in the building, infrastructure and resources sectors in Australia, New Zealand and Pacific Islands, Southeast Asia and the Middle East.

Focus	2018 performance
Restore profitability and position for growth in strong markets	▸ Restored profitability with improved project execution and positive cash flow ▸ Focused on consistent performance; new awards delivering planned performance ▸ All four business units in or entering growth phase ▸ Committed to excellence in governance, execution and customer relationships
Strengthen engineering, technology and innovation	▸ New engineering, technology and innovation function strengthening engineering excellence, innovation and value creation across specialist capabilities ▸ In-house specialised expertise optimising technical and constructability solutions
Address underperformance and legacy matters	▸ Corrective actions applied to limited number of underperforming projects ▸ Resolution of the majority of historic claims derisked balance sheet, enabling progress towards growth and sustainable profitability ▸ Three major outstanding claims that may provide additional cash upside are being progressed in accordance with resolution strategies
Grow order book	▸ Strategically positioned in high-growth markets and leveraging technical capability and geographic and sector diversity ▸ New work lower than planned, reflecting changing approach to tendering and strong competition in Southeast Asia ▸ Diversified customer base, with significant opportunities in transport infrastructure, energy, building and resource projects ▸ Preferred or sole source early client involvement (ECI) status on several tenders

Strategic alignment

Through its 100% investment in McConnell Dowell, Aveng achieves geographic diversification. McConnell Dowell capitalises on its strong brand and positioning as a "local" participant in its geographic markets. The company aims to be the preferred contractor, partner and employee of choice across its core sectors.

McConnell Dowell's diversified project portfolio and blue chip clients are key aspects of its competitive advantage.

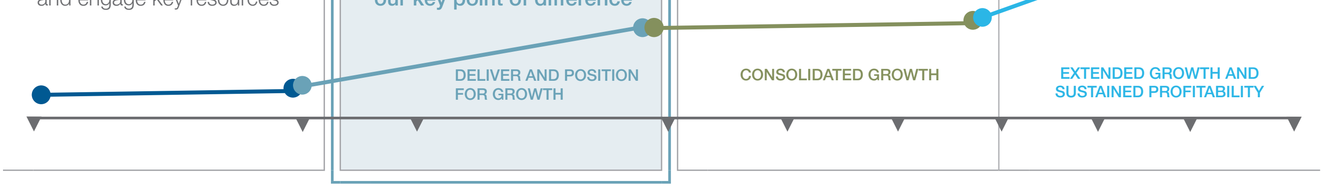
The company's specialist capabilities include:

- History of success on smaller to mid-range construction projects;
- Strong innovative technical skills;
- Diversity: geography, discipline and sector; and
- Ability to execute complex projects for blue chip clients.

In recent years, a new management team has stabilised McConnell Dowell and positioned it for growth and sustainable long-term profitability.

The implementation of a revised purpose, shared values, new operating model, simplified organisational structure and operating framework has been central to the turnaround programme, which is being implemented as follows:

RESET COMPLETED	DELIVER ON TRACK	GROW	EXTENDED GROWTH
Reset the organisation	**Stabilise operations**	Strong performance – current footprint	A recognised and respected market leader in all our regions
Empower the business units	**Loss-making projects completed**	A growing business	Present and delivering projects in new areas within existing regional geographies
Strengthen technical and operations	**Legacy project issues resolved**	Organisational strength	Successfully implemented both organic and inorganic growth strategies
Improve project execution	**Historical project commercial issues resolved**	Accomplished broad capability	Realise sustained growth and profitability
Increase connectivity and collaboration	**Balance sheet "strong and clean"**	Increased activity in the resource sector	Real growth on compound earnings
Become customer centric	**Modest but normalised financial performance**	Product expansion	
Align operating model and organisation structure	**Prepared for growth**	Built Environs expansion	
Finalise leadership changes and engage key resources	**Customer relationships are our key point of difference**	Brand recognition	



Operational review continued

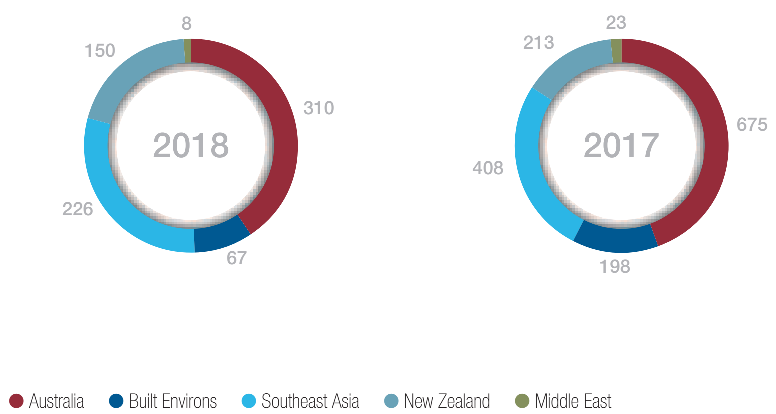
Construction and Engineering: Australasia and Asia continued

2018 performance

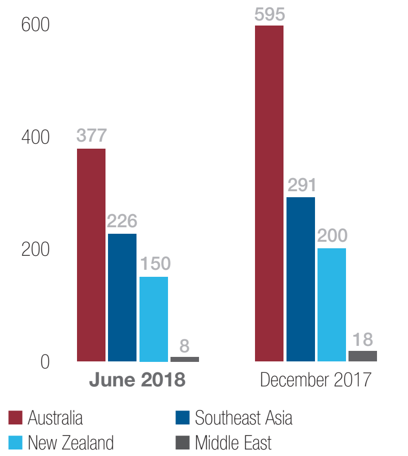
Financial highlights*	AUDm 2018	AUDm 2017 adjusted**	AUDm Variance %	Rm 2018	Rm 2017 adjusted**	Rm Variance %
Revenue	**1 170**	906	29	**11 716**	9 293	26
Gross earnings	**98**	64	53	**978**	657	49
Net operating earnings / (loss)	**10**	(12)	>100	**103**	(129)	>100
Non-cash write-down	**–**	(433)	>100	**–**	(4 241)	>100
Operating free cash flow	**17**	(68)	>100	**202**	(583)	>100
Capital expenditure	**14**	17	(18)	**136**	168	(19)
Total assets	**556**	584	(5)	**5 662**	5 676	–
Total liabilities	**367**	435	16	**3 711**	4 377	15
Two-year order book	**761**	1 517	(50)	**7 704**	15 250	(49)

** This financial information is presented based on management's analysis of the performance of its business and does not conform to IFRS in its entirety.*
*** Excludes the impact on revenue and operating profits associated with the write-downs of uncertified revenue in 2017.*

Two-year order book by business unit (AUDm)



Two-year order book by geography (AUDm)



Operational and financial performance

The Construction and Engineering: Australasia and Asia operating segment comprises McConnell Dowell's business units: Australia, Southeast Asia and the Middle East, New Zealand and the Pacific Islands and Built Environs.

McConnell Dowell grew its revenue by 29% and restored profitability as a result of improved project execution in growing markets.

The revenue of the **Australia** operations increased by 79% to AUD587 million (2017: AUD328 million). This reflected our selective approach to bidding and sound project execution on the Amrun Export Facility Jetty in Queensland, Northern Gas Pipeline traversing the Northern Territory and into Queensland, and the Murray Basin Rail Upgrade and Swanson Dock East Rehab Works in Victoria.

The region secured several key projects, including Melbourne Airport Runway Development Project and Abbotts Road level crossing removal (as part of the Western Program Alliance) in Victoria, and the Public Transport Projects Alliance and Regional Bridges for Department of Planning, Transport and Infrastructure in South Australia.

While recently awarded projects achieved planned performance, operating earnings were impacted by a small number of historic loss-making contracts which are close to being resolved.

The business unit is well placed to secure a range of projects across the resource and transport infrastructure sectors in 2019 and beyond as the commodity cycle improves. However, competition is likely to increase in line with growing market activity.

Southeast Asia operations experienced an 11% increase in revenue to AUD263 million (2017: AUD237 million), driven by strong progress on the Tuas Bridge Project (Singapore), Marina Bay Sands Project (Singapore), Rapid Solid Product Jetty Project (Malaysia) and Nakhon Ratchasima Pipeline Project (Thailand). The business unit's portfolio includes leading and award-winning projects.

The operational results were negatively impacted by underperformance on the two underpass projects in Singapore. The Tangguh LNG export jetty continues to advance but is experiencing schedule impacts associated with customer provided logistic support, engineering and project mobilisation activities.

The business unit secured new contracts, including New Tunnel at Jurong Island for Sembcorp and VTB Submarine Pipeline Project at the ExxonMobil CRISP Facility in Singapore. Tendering levels remain high but the business continues to experience strong competition across all market sectors and regions.

The Southeast Asia operations maintain the capability and capacity to perform across all areas of specialisation: marine, pipelines, tunnels and underground sectors. The business unit focuses on select opportunities where it can demonstrate a competitive advantage in complexity, scale and intricacy of the work.

The **Middle East**, which is operated in joint venture with Dutco, reports to Southeast Asia and continues to perform satisfactorily in a focused narrow market segment in a challenging business environment.

The revenue of **New Zealand and Pacific Islands** declined by 35% to AUD174 million (2017: AUD270 million), as the business unit successfully completed key projects within the region. These include the Kawarua Falls Bridge, Russley Road Overpass in the South Island and the Mangere BNR in the North Island. The Mangere BNR Project is vital infrastructure for Auckland and secured the top award for McConnell Dowell in the Institute of Public Works Engineering Australasia (IPWEA) NZ Excellence Awards 2018.

Despite a decline in earnings, operational performance was strengthened during the year as reflected in good progress on the City Rail Link project in the Auckland CBD, Sumner Road replacement and the Christchurch Southern Motorway in the South Island.

New contracts included Wynyard Edge Alliance Delivery Partner, Lyttelton Harbour Wastewater Project and Te Mato Vai in New Zealand, and Pago Pago Airport Apron (Phase 1) and Pago Pago Runway Overlay in American Samoa.

Conditions in the core markets are expected to remain relatively stable in the near term and larger capital projects are returning to the medium-term pipeline. The business is positioned to secure several targeted projects in the marine, water and transport sectors to underpin revenue in 2019.

McConnell Dowell has a strong reputation in the region for delivering consistently sound performance in safety, productivity, innovation and quality, which is a key competitive advantage. In particular, McConnell Dowell is the market leader in the marine and tunnel sectors where it holds industry records and recognition for superior project execution and delivery methodologies.

McConnell Dowell's commercial building arm, **Built Environs** continues to advance its turnaround plan. Revenue increased by 92% to AUD90 million (2017: AUD47 million) which reflects the cancellation of the U2 on Waymouth contract. Built Environs is restoring operational excellence and broadening its market presence and activity in line with the growth plan.

Construction on The West Franklin Apartments is progressing to plan and the Urbanest Student Accommodation was completed in January 2018, making this the fastest construction of a 22 storey building in Adelaide.

The primary strategic objective of Built Environs is to establish critical size and scale of the operations through expansion into adjacent and complementary sectors and geographies. The business is now active in a diverse range of sectors, including apartments, student accommodation, hotels, health, defence, and education.

New contract awards were secured on HMAS Stirling Garden for the Department of Defence and ECI opportunities are being pursued for the Wyndham Lux Hotel, GSA Accommodation, East End Apartments and 157 Waymouth Street. However, these opportunities are dependent on conversion into design and build contracts.

Built Environs has made good progress in establishing its brand in New Zealand and is well placed to secure new work in the region.

Safety and health performance

McConnell Dowell has continued to focus on lead indicator initiatives to increase hazard awareness, sub-contractor engagement, hazard reporting and an improvement in safety culture across all business units. Although man-hours have begun to increase, the net result is a LTIFR of 0,11 (2017: 0,14). Performance highlights include the Loyang Plant yard which has been LTI-free for 16 years.

McConnell Dowell's health, safety, environment and quality (HSEQ) database, CMO, continues to provide access to group HSEQ data trends and use of the connected "in the field" applications has commenced. In addition, CMO is used for internal HSEQ auditing, allowing automatic tracking and monitoring of action close-out.

A review of the McConnell Dowell Management System (MMS) was completed. This resulted in a move to a SharePoint platform which allows greater search functionality and easier access. All documentation was reviewed by the functions and updated, and non-mandatory documents were moved into a reference library.

Environmental performance

McConnell Dowell continued to experience sound environmental performance during the year, with no serious environmental incidents recorded

Operational review continued

Construction and Engineering: Australasia and Asia continued

and a serious environmental incident frequency rate of zero.

This outcome was the result of consistent application of the environmental elements of the MMS, and a strong focus on environmental awareness.

McConnell Dowell continues to be a member of the UN Global Compact as well as contributing to ISCA working groups and strengthening connections with sustainability organisations.

Human capital performance
Significant senior leadership transformation occurred across all business units. An executive general manager was appointed for the newly established engineering technology and innovation group function. Further executive appointments included new managing directors in the New Zealand and Pacific Islands and Southeast Asia regions at the end of the 2017 financial year. The new executives aligned their operations to McConnell Dowell's strategic and operational objectives and enhanced the operational and functional capability of their leadership teams.

The Southeast Asia business unit now encompasses the Middle East business. Refreshed and aligned leadership teams for the two operations continue to take shape. Australia and Built Environs business units strengthened their senior leadership teams with appointments to address minor turnover.

Looking ahead

- McConnell Dowell has built a strong foundation for future growth and maintains a business portfolio that is diversified by sector and geographic market.

- All core market sectors are expected to grow at a steady pace over the next five years, driven largely by public and private sector investment in road, rail and power infrastructure projects and an anticipated increase in activity in the resource market. These conditions together with the operating group's strong brand reputation, technical expertise and diversity enable it to maximise existing and future growth opportunities.

- McConnell Dowell commences the new financial year with an order book of R7,7 billion, which is 34% lower than at 31 December 2017. The business has a AUD1,25 billion pipeline of work that is being tendered on an ECI approach which takes longer to finalise but reduces risk during project implementation. McConnell Dowell will focus on progressing these opportunities, while continuing to deliver consistent performance in order to generate sustainable profitability.

Industry accolades

- **Master Builders Award** – Modbury Hospital Redevelopment
- **Australian Institute of Building** – Modbury Hospital Redevelopment
- **Civil Contractors New Zealand** – Waterview Connection
- **Institution of Civil Engineers 2017 Brunel Medal** – Brisbane Ferry Terminals
- **IPWEA Excellence Award, New Zealand** – Mangere Biological Nutrient Removal Upgrade
- **Civil Contractors New Zealand (Auckland Branch)** – Mangere Biological Nutrient Removal Upgrade

Operational review

Stuart White
Managing director
Moolmans

AVENG MINING

Mining

Moolmans (previously Aveng Mining) is a South African-based leader in open cut contract mining across Africa, offering services across the mining value chain. Moolmans has developed strong brand equity through its customer relationships, extensive experience in remote and difficult locations, and track record of sound operational performance.

Focus	2018 performance
Preserve financial performance in weak market conditions	▸ Addressed loss-making contracts by agreeing to exit or to extend contracts at revised rates and contract conditions to recover operational costs over a longer period ▸ Focused on improving equipment and operational efficiencies ▸ Secured commercial funding solutions to replace or maintain certain ageing equipment
Position business to benefit from market recovery	▸ Maintained client relationships to improve likelihood of securing new contracts or contract extensions when commodity prices improve ▸ Optimised underground mining operations
Rebalance geographic, client and commodity weighting of order book	▸ New contracts or contract extensions over past two years increased the diversity of clients and commodities, and contributed to an improvement in the ratio of work outside South Africa ▸ Established a presence in the Middle East, and a partnership with McConnell Dowell to develop opportunities in Southeast Asia in the longer term
Embed safety, health, environment and quality (SHEQ) integrated management system	▸ SHEQ disciplines combined onto a single platform and embedded in all mining and maintenance activities ▸ Integrated management system extended to all partners on work sites, enabling Moolmans to provide best mining safety practices

Strategic alignment

The integration of Aveng's open cut and underground mining business units under the reputable Moolmans brand has positioned the Group to offer its clients comprehensive services across the mining value chain. This enables Aveng to leverage the combined strength of the business units and market its scale and mining contracting capabilities more effectively.

Moolmans has developed strong relationships with sound mining clients and is well established in southern African markets, with a presence in the rest of Africa.

Moolmans is exploring synergistic opportunities with McConnell Dowell:
- African and Middle Eastern opportunities are prioritised to be accessed through Moolmans' strong presence, track record and brand; and
- Future Southeast Asian opportunities can be leveraged through McConnell Dowell partnerships for pit-to-port solutions.

Moolmans has strengthened its focus on operational excellence and developing partnerships, as described below:

Stretching yellow metal

Optimal fleet management

- A Group-led turnaround intervention under way at Moolmans will ensure that equipment is optimally maintained and deployed
- Aveng will continue to ensure that Moolmans has the necessary skills to maintain this competitive advantage

Inventory optimisation

Relationships with OEMs and major suppliers are in place

The inventory optimisation drive focuses on:
- Reducing inventory for consignment options
- Sharing operations data with suppliers to ensure ability of the right stock at the right time
- Regularly testing the supplier market to ensue that we are paying a fair price

Client partnerships

Governance oversight
- Use mine design knowledge and operational experience to assist clients in optimisation of mine planning
- Use reputation for reliable delivery to extend existing customer relations and win new clients
- Reporting on exceptions and improvements

Market partnerships

Leverage existing relationships with stakeholders
- Use knowledge of feasibility studies to align to market requirements
- Use relationships with OEMs to improve maintenance performance and optimise stretching of yellow metal across all operations

Accessing new markets

Create opportunities by offering to move capital off customer balance sheets
- Use knowledge of feasibility studies to align to market requirements
- Use relationships with OEMs to improve maintenance performance and optimise stretching of yellow metal across all operations

Expanded value offering

Increase services and value offered in the next 10 years
- Mine design capabilities
- Exploration drilling
- Other related services and products

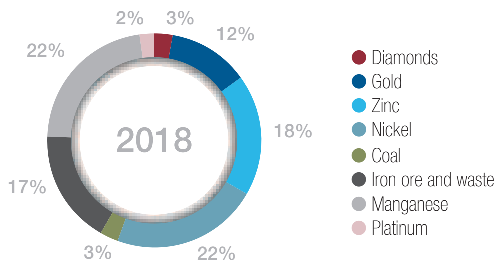
Operational review continued

Mining continued

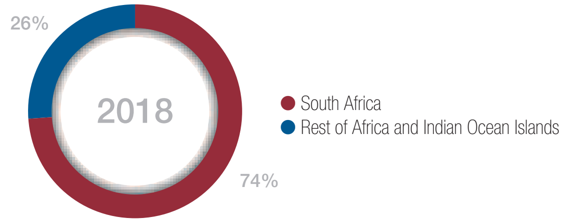
2018 performance

Financial highlights	2018 Rm	2017 Rm	Variance %
Revenue	**4 713**	4 184	13
Gross earnings	**261**	410	(36)
Net operating earnings	**11**	219	(95)
Operating free cash flow	**(79)**	(41)	(93)
Capital expenditure	**507**	557	(9)
Total assets	**3 752**	4 123	(9)
Total liabilities	**1 260**	1 450	13
Two-year order book	**5 273**	7 754	(32)

Two-year order book by commodity



2018 Revenue by geography



Operational and financial performance

Moolmans reported a 13% increase in revenue as the bulk of its fleet that was impacted by the commodity downturn in prior financial years was redeployed. However, net operating earnings decreased by 95% to R11 million (2017: R219 million).

The financial performance was impacted by underperformance on three contracts, namely the Tarpako gold mine project, the Karowe diamond project and the Langer Heinrich uranium mine project. The affected contracts received management attention which led to either a commercial renegotiation of the contract or an exit. The impact of these contracts was accounted for in the current year's results.

Moolmans secured increased volumes or extensions to two existing open cut contracts in its portfolio. This will support the operating group's performance in the 2019 financial year.

The underground mining operation was optimised in recent years. This involved closing out loss-making projects, resolving all commercial issues and reducing the cost base. In addition to the specialised engineering services it provides to the mining industry, the underground mining operation achieved ongoing productivity and safety improvements at the Platreef platinum mine, delivering record monthly sinking rates of 54 metres. The current scope will sink the Platreef shaft to a depth of 800 metres and discussions are under way to extend the contract in order to deepen the shaft to 983 metres by 2020.

The mitigation of the impact of the loss-making contracts forms part of the focus of a comprehensive and structured Group-led turnaround intervention under way at Moolmans. In addition to addressing loss-making contracts, measures were introduced to improve efficiency across all Moolmans' projects. Good progress is being made in this regard. In support of this effort, two new senior leadership appointments were made to strengthen the Moolmans team. The operating group made investments to improve the performance of equipment.

Moolmans' immediate priority will be to pursue selective opportunities within its South African market and the rest of Africa. In the longer term, expansion beyond these markets will be undertaken in a measured manner. Some early activities have been directed in support of this long-term objective, but these are unlikely to result in awards in the short to medium term.

Safety, health and environment performance

Moolmans maintained a sound safety performance, with a LTIFR of 0,25 (2017: 0,26) and a TRIFR of 0,85 (2017: 0,82). There were no fatalities. A strong focus on creating safe working environments included increased employee engagement by senior managers with site employees, higher levels of awareness amongst employees of risk controls in all mining and maintenance activities, and sharing of lessons learnt from incident investigations.

A number of mining projects recorded significant safety milestones. The Karowe diamond mine achieved 1,9 million LTI-free man-hours (481 days), Tshipi Borwa mine achieved 1,6 million LTI-free man-hours (1 004 days) and the engineering workshops achieved more than one million LTI-free man-hours (749 days).

The SHEQ integrated management system (IMS) combined the management of safety, health and wellness, environmental and quality management onto a single platform and is embedding the four disciplines in all mining and maintenance activities.

By extending the use of the management system to all partners on site operations, Moolmans is providing best mining safety practices to the benefit of its clients. Moolmans is developing the SHEQ IMS to attain a business continuity accreditation (ISO 22301).

The “zero waste to landfill” project that was successfully piloted in recent years was rolled out to the Sishen and Platreef mines, where local service providers partnered with established waste service providers.

Human capital performance

Moolmans continues to strive for operational excellence through effective human resource practices and training. Accredited training centres respond to key requirements of the business, and emphasis is placed on the engineering learnership programme.

During 2018, of the 237 apprentices enrolled on the programme, 138 are black or coloured men, while nine are women. The majority of apprentices who qualified, were employed by Moolmans, as demonstrated in the following graph:

Subsequent to 30 June 2018, Moolmans was restructured to reduce its costs in line with industry demand. This resulted in the retrenchment of 43 head office employees, some of whom were relocated to other Aveng businesses.

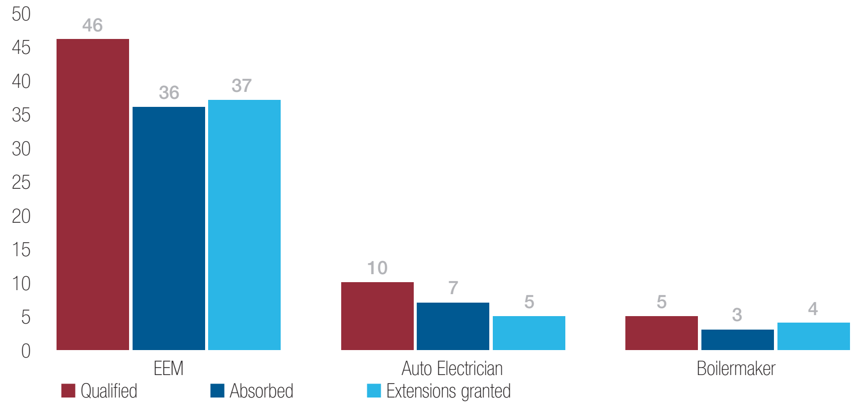
A three-year collective wage agreement for the mining industry concluded in June 2018 bodes well for the future. An improving labour relations climate was reflected in increased stability at the Nkomati and Platreef sites as a result of an improvement in the quality of employee engagement.

Transformation

Moolmans maintained a level 2 B-BBEE contributor status, achieving notable improvement in skills development, enterprise supplier development and preferential procurement. Achieving employment equity targets remains a key focus area.

Apprentice absorption trend (2018)

Qualified versus absorbed



Operational review continued

Mining continued

Looking ahead

- Moolmans enters the new financial year with a lower order book of R5,3 billion (December 2017: R6,7 billion). 88% of revenue is secured for 2019. 2019 will be a year of consolidation, with further optimisation of the cost base in line with the reduction in revenue, and a strong focus on maximising equipment and other operational efficiencies.

- Moolmans will pursue available opportunities and maintain sound client relationships in order to secure contract extensions. Growth will initially be sought in South Africa and the rest of Africa where Moolmans has a history of good performance.

New contracts and extensions

- Gamsberg zinc mine in the Northern Cape – South Pit
- Converted Lefa from a rental contract into a bulk cubic metre contract
- Increased volumes at Tshipi Borwa
- 24-month plant rental contract at Tarparko
- Interim increased scope at Platreef
- Extension of Klipbankfontein contract

Industry accolades

- Moolmans continues to maintain an integrated SHEQ Management system that is accredited to OHSAS 18001: 2007, ISO 14001: 2015 and ISO 9001: 2015

Operational review

Bhekani Mdlalose
Managing director
Aveng Grinaker-LTA

Suzie Nkambule
Managing director
Aveng Water; strategy executive
Aveng Grinaker-LTA

Michael Canterbury
Group executive: Strategy and investor relations; managing director of Aveng Capital Partners

Construction and Engineering: South Africa and rest of Africa

Aveng offers multi-disciplinary construction and engineering services to its clients in southern Africa and other selected markets in Africa. The Group offers a comprehensive range of standalone or integrated services in building, civil engineering, roads, earthworks, concrete, ground engineering, mechanical, electrical, instrumentation and piping contracting, as well as project management, infrastructure investment, water treatment design, and facilities operation and maintenance services.

Focus	2018 performance
Implement a lean and uncluttered operating model	▸ In line with the low growth expectations within the existing macro-economic environment, Aveng Grinaker-LTA undertook actions to reduce its overhead structure ▸ Further work is expected to be undertaken in the new financial year to ensure that Aveng Grinaker-LTA's capacity is matched to expected market conditions
Normalise financial performance by executing all projects at or above tendered margins	▸ Mechanical and Engineering, Aveng Water and GEL maintained their profitability with sound execution of carefully selected projects ▸ Underperformance in some Civil Engineering and Building projects resulted in operating losses ▸ Civil Engineering derisked loss-making road projects
Pursue smaller projects in niche markets	▸ All business units are focusing selectively on growth opportunities in their core competencies ▸ An innovative approach to pursuing work in niche areas seeks to mitigate low growth in traditional markets
Progress transformation as a vehicle for sustainable growth	▸ Increased empowerment of management team ▸ Strong focus on improving employment equity and enterprise development performance ▸ Plans are under way to dispose of Aveng Grinaker-LTA

Strategy

The business units in this operating segment participate at all stages of the construction and engineering value chain in South Africa and targeted markets in the rest of Africa.

A renewed executive management team with a track record of restoring the Mechanical & Electrical and Aveng Water business units to profitability has embedded operational and commercial discipline throughout the operating group. This includes:

- focusing on core capabilities;
- selecting viable projects;
- ensuring project management competence and monitoring performance daily; and
- maintaining sound relationships with clients and local communities.

Transformation remains a key strategic lever for Aveng Grinaker-LTA to remain relevant in a transforming South African construction sector.

2018 performance

Financial highlights*	2018 Rm	2017 Rm (adjusted)**	Variance %
Revenue	**6 622**	6 080	9
Gross earnings	**(26)**	237	>(100)
Net operating loss	**(367)**	(198)	(85)
Non-cash write-down	**–**	204	
Operating free cash flow	**27**	422	(94)
Capital expenditure	**49**	80	(39)
Total assets	**1 779**	1 905	(7)
Total liabilities	**1 643**	1 533	(7)
Two-year order book	**4 682**	6 832	(31)

** This financial information is presented based on management's analysis of the performance of its business and does not conform to IFRS in its entirety.*
***Excludes the impact on revenue and operating profits associated with the write-downs of uncertified revenue in 2017.*

Operational and financial performance

The Construction and Engineering: South Africa and rest of Africa segment comprises Aveng Grinaker-LTA and Aveng Capital Partners. Aveng Water operates under its own brand but shares services with Aveng Grinaker-LTA's Mechanical and Electrical business unit.

The operating segment increased its revenue by 9%. However, a combination of ongoing underperformance on major road and building projects and further retrenchment costs resulted in a disappointing loss of R367 million (2017: R198 million adjusted loss).

The revenue of **Building** and **Building South** increased to R3,7 billion (2017: R3,1 billion) as work continued on a number of major commercial, industrial and healthcare projects across South Africa. There was a strong focus on delivering quality work in safe working environments, but financial performance was impacted by operational underperformance which eroded margins on a small number of high value building projects. This resulted in a net operating loss of R45 million (2017: R75 million). In Gauteng, the Old Mutual Head Office in Sandton was completed, while the Leonardo Towers and 129 Rivonia developments remain on track for completion in 2019. The 400-bed Dr Pixley Ka Isaka Seme Memorial Hospital project in KwaZulu-Natal addressed challenges in its operating environment by establishing community partnerships to maximise local development. Post year end Aveng Grinaker-LTA negotiated a commercially acceptable exit from the project. In the Western Cape, the Cape Town International Convention Centre project was completed and handed over to the client. Final closure of the contract occurred post year end. Work continued on a number of projects to provide essential services in the Western Cape in partnership with the City of Cape Town. The Standard Bank building and other smaller projects in Namibia were completed but the future pipeline of work is constrained by lower public sector investment.

A number of major building projects will be completed in 2019 and new work of similar scale is not readily available. Therefore, the Building and Building South businesses are pursuing smaller, non-traditional projects in the higher end commercial development and refurbishment markets in Gauteng. The successfully completed Rosebank Fire Station conversion into a multi-use development is an example of this approach. Sound relationships with emerging developers in Gauteng and commercial, industrial and local government clients in the coastal markets, provide a competitive buffer.

Operational review continued

Construction and Engineering: South Africa and rest of Africa continued

Civil Engineering, including Aveng Rand Roads and Aveng Ground Engineering (GEL), reported a 14% increase in revenue to R1,6 billion (2017: R1,4 billion) mainly due to the Majuba coal handling project. However, general conditions in the civil infrastructure market remained difficult, with strong competition for limited new opportunities. The business unit's exposure to road projects that continued to experience weather or community-related disruptions and commercial challenges, resulted in a loss of R318 million (2017: R397 million). This includes the costs to complete loss-making road projects. Work on civil structures at Medupi and Kusile power stations is well advanced and due for completion in 2019. Work commenced on haul roads in preparation for the three-year 1,1 km Mtentu Bridge project, which is part of the N2 Wild Coast project.

Civil Engineering focused on stabilising and completing loss-making projects and ensuring delivery of sound performance on all other projects. In persistently challenging market conditions, the business unit curtailed the size of its order book and is maximising its strength in core civil structures in the industrial and mining markets.

Aveng Rand Roads reported a loss of R3 million due to the impact of reduced expenditure on roadworks in Gauteng.

GEL performed to expectation on a range of high volume short-term contracts and improved the efficiency of its assets by overhauling materials or arranging asset swaps for idle equipment. GEL provides support on internal projects such as the Mtentu Bridge.

The revenue of **Mechanical and Electrical** declined by 9% to R1,1 billion (2017: R1,2 billion) due to lower levels of work on major power projects. However, the business unit performed to expectation, delivering an operating profit of R40 million as it completed a number of diverse projects and focused on major shutdown and maintenance contracts in the petrochemical market. Mechanical and Electrical has a presence in the majority of petrochemical refineries in South Africa and has developed a sound track record of on-time and safe delivery of projects in this complex field. The business unit has a strong pipeline of viable work in its order book, and continues to build sustainable client relationships.

Aveng Water delivered an operating profit of R52 million (2017: R32 million) from lower revenue of R318 million (2017: R356 million). The business unit closed out the construction phase of the eMalahleni project, progressing to the operations and optimisation phase of the water treatment plant, and successfully ramped up the Erongo desalination plant in Namibia.

Aveng Water focused on leveraging its significant advantage in desalination and acid mine drainage technology. It is growing its presence in the operation and maintenance of water treatment facilities, where its six sigma approach and methodology improves operational efficiency. The business unit established a strong track record at the eMalahleni, Middelburg and Erongo plants in efficiently scaling and managing the plants with labour sourced from local communities. The domestic mining and municipal sectors offer attractive future growth opportunities in water treatment.

Aveng Capital Partners (ACP) manages Aveng's investments in a 30% interest in the Dimopoint property portfolio, a 30% interest in the Department of Environmental Affairs building in Pretoria and co-management of the Sanral rehabilitation project on the N1 highway between Polokwane and Bela Bela (the NTRV concession). Having sold a substantial portion of assets in its portfolio in 2017, ACP reported a net operating loss of R17 million (2017: R7 million profit). The NTRV contract will mature in October 2018 and plans to extract value from the property portfolio form part of Aveng's strategic review.

Safety, health and environment performance

Regrettably, Aveng Grinaker-LTA reported a fatality at its R61 All Saints Road project, where an employee, Anele Nwelende, was struck by a vehicle used to transport employees from the work site to their camp. Mitigating the risk exposure of employees working on road projects remains a major focus for the business. Additional detail on this fatality is available in the sustainability report at www.aveng.co.za.

A significant improvement in safety performance was reflected in a LTIFR of 0,22 (2017: 0,40), against a target of 0,15, and a TRIFR of 0,94 (2017: 1,21). Four of the five business units reported sound improvements in safety performance, while several building projects have achieved injury-free milestones from project commencement. The Erongo water treatment plant in Namibia achieved eight years of LTI-free operations and the Dr Pixley hospital project achieved 3,5 million LTI-free man-hours. Improved safety performance was attributed to the strong focus on visible leadership and a culture of risk ownership at appropriate levels.

The operating group made further progress in its commitment to reduce noise-induced hearing loss at its work sites. Interventions were implemented to address an increase in stress and substance abuse amongst some employees during restructuring processes.

All business units maintained their certifications in the safety, health and environmental management systems OHSAS 18001, ISO 14001 and ISO 9001 and made progress in adapting the quality certifications to the 2015 standard. Aveng Grinaker-LTA implemented a new document management system to improve communication and efficiency of reporting in line with global standards. Ongoing improvements to the ERP system are contributing to improved management of risk and operational controls.

Most of the operating group's projects have a low or controlled environmental impact with the exception of the Mtentu bridge and Pampoensnek road projects. These have strict environmental requirements which are rigorously tracked.

The Building business unit conducted a study on the reduction of OPC and cementitious sediment in waste water discharged at project sites, including significant reduction of high pH levels. The Building South business unit focused on reducing its water impact during construction activities in the drought-stricken Western Cape.

Continued engagement and membership with the Green Building Council SA as a founding member entrenches Aveng Grinaker-LTA as a green builder.

Human capital performance
Aveng Grinaker-LTA's management team is restoring sound operational and financial performance with daily monitoring of projects and prompt interventions to remediate underperformance.

The operating group has experienced a loss of skilled employees in underperforming business units, which impacted employment equity performance. However, the business units that are functioning effectively, attracted and retained talent more successfully.

Aveng Grinaker-LTA invested R19,9 million (2017: R17,2 million) in its extensive range of accredited leadership development, skills training, apprenticeship and learnership programmes. The Aveng Grinaker-LTA graduate in training programme currently has a cohort of 24 graduates completing their first and second years of workplace training, 42% of whom are female and 88% black participants. The Aveng Grinaker-LTA mentorship programme for professional registration with the Engineering Council of South Africa has 34 candidates on the civil engineering internship and 17 on the mechanical engineering programme. In total, 14 of the 51 candidates are female and 30 are black. Bursaries were awarded to 43 individuals – 93% black, 58% females.

Transformation performance
The operating segment has a level 2 B-BBEE rating based on the revised codes of good practice and continues to focus on improving performance in employment equity and enterprise development.

Plans are under way to dispose of Aveng Grinaker-LTA to a buyer that will be able to position it for future growth in the domestic public and private construction and engineering sectors.

Looking ahead

- Infrastructure investment is expected to remain subdued in South Africa and in certain African markets. In this slow growth environment, Aveng Grinaker-LTA has reduced its revenue expectation by 25% and will continue to downscale its capacity in line with revenue growth. 63% of the order book has been secured for the year ahead.

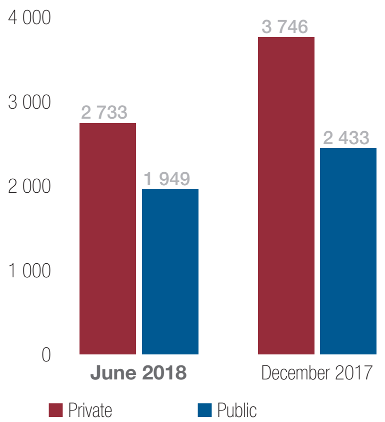
- Aveng Grinaker-LTA will complete the short-term process of derisking Civil Engineering and will maximise growth opportunities in niche markets where it has core competencies and a track record of on-time, safe and profitable project delivery.

Industry accolades

- Aveng Grinaker-LTA Building and Building South business units awarded two first places in the National Master Builders Association competition
  - Dr Pixley Ka Isaka Seme Memorial Hospital – first place (R500 million and category)
  - Aspen SPV2 – first place (R250 million to R450 million category)

Two-year order book	(Rm)
Building and Coastal	2 072
Mechanical and Electrical	1 079
Civil Engineering	1 176
Aveng Water	262
Other	93
Total	4 682

Two-year order book by public and private sector (Rm)



Operational review

Hercu Aucamp
Managing director
Aveng Steel

Wouter de Gidts
Managing director
Aveng Manufacturing

Manufacturing and Processing

Aveng Manufacturing manufactures and supplies construction products to the construction sector, services and engineered solutions to mining, water, oil and gas and construction clients, and rail construction and maintenance services to the transport sector. Aveng Trident Steel supplies a wide range of products to the distribution, mining, construction and automotive industries from its steel processing service centres and warehouses, and its manufacturing and fabrication plants.

Focus	2018 performance
Improve profit performance	▸ Aveng Trident Steel returned to profitability despite sustained market challenges ▸ DFC and ACS were profitable; other business units exposed to mining and rail sectors experienced headwinds ▸ Focused strategy to address underperformance includes closing non-performing sites, rationalising production facilities and reducing operational costs and capacity
Maintain cash generation	▸ Strong working capital management enabled Aveng Trident Steel to maintain positive cash flow throughout the year ▸ Aveng Manufacturing was impacted by weak market demand
Increase product, sector and geographic diversification to counter weak traditional markets	▸ Strong focus on driving offshore revenue opportunities, notably in DFC
Selective investment to improve capacity and efficiency of operations	▸ R22 million invested in increased manufacturing capacity for construction materials and innovative new products

Strategy

New executive management revised the strategy of Aveng Manufacturing in response to sustained weakness in key markets. The main priority was to downscale operations relative to market opportunity, address loss-making operations and improve operational efficiency. A structured plan was developed for each business unit, using six sigma methodology to improve efficiency and key performance indicators to track performance against the strategy.

The profit improvement programme introduced in 2017 was integrated into the action plan and accelerated to address:

- sales force efficiency, supported by customer relationship management
- procurement efficiency and cost-cutting
- operational efficiency

A number of cost-cutting initiatives were implemented, including closure of unprofitable product lines or plant. Manufacturing business units continued to diversify into new products, sectors or geographic markets to counter weak traditional markets.

Aveng Trident Steel maintained its focus on improving profit performance and generating operating free cash flow.

Financial highlights	2018 Rm	2017 Rm	Variance %
Gross revenue	**7 353**	7 936	(7)
Gross earnings	**354**	492	(28)
Net operating loss	**(167)**	(3)	>(100)
Operating free cash flow	**(104)**	(20)	>(100)
Capital expenditure:	**88**	142	38
Aveng Manufacturing	**69**	123	44
Aveng Steel	**19**	19	0
Total assets	**3 785**	4 717	(20)
Total liabilities	**2 539**	1 856	37

2018 performance

The Manufacturing and Processing operating segment comprises Aveng Automation & Control Solutions (ACS), Aveng Dynamic Fluid Control (DFC), Aveng Duraset, Aveng Infraset, Aveng Rail and Aveng Trident Steel. These businesses have been identified as non-core and Aveng intends to realise value from their disposal.

Operational and financial performance

The revenue of Aveng Manufacturing decreased by 13% to R2,1 billion (2017: R2,4 billion) and net operating earnings decreased to a loss of R196 million (2017: R51 million profit). This reflected weak operating conditions in the infrastructure, rail, underground mining and water sectors served by Aveng DFC, Aveng Duraset, Aveng Infraset and Aveng Rail.

In contrast, conditions in the oil, gas and chemical sectors improved during the year, increasing **Aveng ACS'** revenue by 9% to R444 million (2017: R408 million). Higher oil prices and the addition of the Pentair range of control valves in the domestic market boosted ACS's order book for 2019. Working capital management remains a key focus area as revenue increases.

Aveng DFC reported a 6% decline in revenue to R452 million (2017: R481 million). This was largely due to the short-term impact of moving the supply of castings from China to South African foundries; domestic supply was stabilised during the year. DFC focused on improving the efficiency of its manufacturing facilities and the functioning of the sales force, strengthening the sales pipeline in the water market. Business development was accelerated in the rest of Africa and a new subsidiary in Brazil will become a supply hub for all DFC's international exports into South America.

Aveng Duraset reported a 6% decline in revenue to R427 million (2017: R454 million) mainly due to the sustained downturn in the underground mining sector. Rising steel prices and over-capacity in a competitive mining products market had a materially negative impact on profit margins, resulting in an operating loss. Duraset embarked on a restructuring process to reduce costs and focused on improving its operating efficiency. These remedial actions, combined with the development of a joint venture in Zimbabwe to supply the local platinum industry, will support targeted break-even in 2019.

Aveng Infraset and Aveng Rail were both heavily impacted by the lack of investment in railway maintenance and construction.

Aveng Infraset reported a 13% decline in revenue to R644 million (2017: R744 million) as demand for both railway sleepers and concrete paving products fell sharply. Closure or restructuring of loss-making factories in Kuils River, Pietermaritzburg and Wadeville resulted in short-term costs that negatively impacted financial performance and increased the operating loss. These measures, combined with productivity improvements at core plants, will reduce the cost base in 2019. A new factory in KwaZulu-Natal will increase capacity in the roof tile market where demand remains buoyant.

Aveng Rail reported a 55% decline in revenue to R166 million (2017: R372 million) as ongoing delays in railway construction projects limited its workload to mechanised track maintenance. Aveng Rail has tendered for railway maintenance projects locally and in the rest of Africa. The business unit concluded a restructuring process to align its cost base with lower revenue.

Operational review continued

Manufacturing and Processing continued

Aveng Trident Steel reported a 5% decrease in revenue to R5,2 billion (2017: R5,5 billion as a result of ongoing challenges in the steel industry. But, an improved margin and stronger cost control and efficiencies resulted in a return to profitability, with net operating earnings of R29 million (2017: R54 million loss). Growing demand in the automotive industry countered the impact of lower domestic steel consumption on the operating group's sales volumes. Higher average steel prices and continuous rightsizing of operations, were key drivers of increased profitability.

Aveng Trident Steel maintained positive cash flow throughout the year despite constant pressure on working capital. This was achieved by continuously reducing net costs, mothballing profiling and fabrication facilities and optimising stock levels and debtor collections.

Safety, health and environment performance

Aveng Trident Steel maintained sound safety performance with a LTIFR of 0,42 (2017: 0,16) and a TRIFR of 1,26 (2017: 2,09), due to a reduction in total recordable injuries. Various interventions were undertaken to assess, train and support employees in safety, health and environmental management, while the adoption of a "just culture" that embraces fairness, consistency and transparency in the treatment of employees contributed to an improved safety culture.

The onsite clinic at the Roodekop facility achieved full compliance with medical surveillance requirements and ensured that the noise-induced hearing loss programme was implemented throughout the operating group.

Aveng Trident Steel adopted the 2015 standard of ISO 14001 and reduced electricity consumption by up to 25% by implementing LED lighting at the Roodekop facility.

Aveng Manufacturing recorded a LTIFR of 0,38 (2017: 0,45) and a TRIFR of 1,14 (2017: 1,24). ACS and DFC business units achieved record injury-free performances. The improved safety performance was achieved by ongoing leadership engagement, risk reviews and effective implementation of risk controls.

Waste reduction initiatives were launched in pursuit of zero waste to landfill. The initiatives segregate waste for recycling or reuse, resulting in a significant reduction of waste to landfill.

Human capital performance

Executive leadership was strengthened by the appointment of new managing directors of Aveng Manufacturing and Aveng Rail.

There was a strategic focus on developing succession planning to ensure adequate bench strength in key and critical positions. Although this process was impacted by low morale and a loss of employees, good progress was made in developing a talent pipeline for junior management.

Transformation

Aveng Manufacturing and Aveng Trident Steel are level 2 B-BBEE contributors. Both operating groups focus on achieving continuous improvement in their employment equity and skills development performances.

Looking ahead

- Aveng Trident Steel will focus on increasing profitability and cash generation in 2019, despite the challenges in the steel industry. The business is well positioned to benefit from increased demand from the domestic automotive industry.
- While domestic demand in most of their key market sectors is likely to remain subdued in 2019, the Aveng Manufacturing businesses have all undergone significant processes to address underperformance, rightsize their operations, improve operational efficiency and allocate resources to products, sectors and geographic markets that counter weakness in their traditional markets.
- A process to dispose of Trident Steel and the individual Manufacturing businesses is under way. In October 2018, Aveng announced that it had entered into a sale and purchase agreement with 100% black-owned Mathupha Capital for Aveng's Rail business for a cash consideration of R133,3 million. The transaction is expected to be concluded by 31 December 2018 once all conditions have been met.

Safety achievements

- Aveng Trident Steel Rosslyn, Port Elizabeth and Cape Town branches achieved seven, three and two years of LTI-free operation, respectively
- Aveng Manufacturing ACS achieved over seven years without an LTI. DFC remained LTI-free for more than two years (1 088 days)

Sustainability overview

To create value for its stakeholders, Aveng recognises that it is necessary for the Group to be financially stable and conduct its activities in a manner supportive of sustainability. This requires efficient and ethical management of all its resources and its stakeholder relationships.

"This was a challenging year with a great deal of change, inevitably affecting operational systems, practice and morale. Extra vigilance and effort was required at every level and of everyone. Regrettably Anele Nwelende lost his life in a road construction accident at our R61 All Saints Road Project.

Aveng's commitment, "Home Without Harm Everyone Everyday", remains central to our approach to safety, health and environment (SHE). The robust platform set through the new SHE strategy launched in October 2016 proved its value. The Group's lost-time injuries and recordable injuries reduced, which is a positive development. Addressing SHE is, of course, an ongoing undertaking and we have noted the need for further work in certain areas to ensure continuous improvement.

The experience of the past year underscored the importance of maintaining systems and standards in times of change."

May Hermanus, Chairman of the safety, health and environmental committee

Aveng reports on the economic, environmental and social impacts of its activities in its sustainability report which is published on the Group's website www.aveng.co.za. The report provides comprehensive detail on the Group's sustainability performance against its strategy and specific goals and targets in five key areas: safety, health, environment, strategic people management and transformation, as well as the Group's risk-based approach to sustainability and sustainability reporting and governance.

Strategic objectives are driven by an Aveng SHE Plan on a Page (PoP) which provides Aveng operations with measurable deliverables and performance verification under each SHE and reporting and governance focus area. Additional detail on the PoP is provided on the next page and in the sustainability report.

This overview comprises a summary of performance in the five key focus areas extracted from the sustainability report.

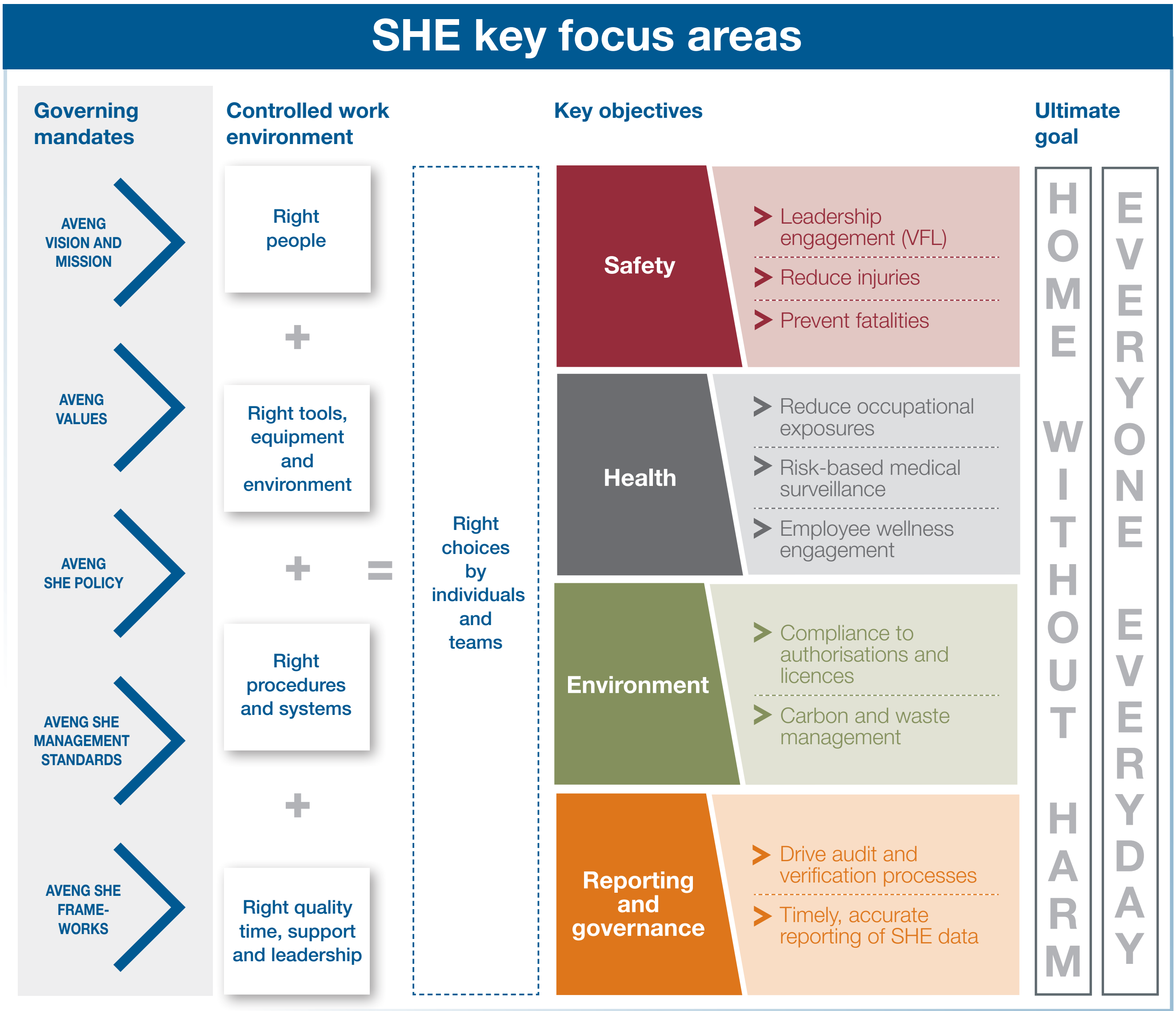
Safety. Aveng operates in a diverse, complex environment and employs a large workforce. The safety of our employees is a core value and integral to the way the Group conducts its business. Employee safety and wellbeing is critical to our ability to embed a high-performance culture and achieve our aspirational goal of "Home Without Harm Everyone Everyday". In 2018, the Group did not meet its ultimate safety goal of zero harm, reporting one fatality (2017: 2) but demonstrated ongoing improvement in key underlying activities that create the conditions necessary for safer work environments.

Health. Aveng recognises the importance of protecting its employees, contractors and other stakeholders who visit its workplaces from occupational health hazards. The Group strives to improve its approach to health in line with its duty of care by identifying health risks associated with its work processes and implementing measures to manage these risks. We seek to ensure that sound practical standards of health and wellness behaviour and performance are adopted and achieved across our operations and activities. In 2018, the Group made further progress in the commitment to reduce noise-induced hearing loss at its work sites and intervened to reduce stress in challenging operating circumstances.

Environment. Aveng recognises its potential impact on the natural environments in which it operates and it continues to work systematically to improve its environmental management and performance, particularly in the areas of emissions reduction, energy efficiency, water conservation and biodiversity management. In 2018, the Group recorded no major environmental incidents and experienced a decline in minor incidents reported. The profile of incidents remains primarily hydrocarbon spillages which were consistent with the business scope and industry profile. Aveng addresses environmental incidents by implementing effective remedial actions and improving its environmental practices in compliance with client requirements and relevant legislation. As part of Aveng's commitment to environmental stewardship, several initiatives were implemented across the Group's operations to reduce waste and water consumption, improve recycling practices, treat and reuse water discharged at building sites and protect indigenous plants on a road project.

Strategic people management. Aveng's human resource management seeks to enable effective processes to attract, develop, performance manage, reward and retain high-performing employees. A key focus area in 2018 was retaining skilled employees in an environment in which employee morale was impacted by major restructuring to improve performance and prepare non-core businesses for disposal. We continued to equip managers with the skills and capability to engage with employees, to ensure clear accountabilities and line of sight between organisational objectives and the outputs required of each employee to meet Aveng's strategic objectives.

Transformation. Transformation in South Africa remains a key element of Aveng's strategy and underpins its sustainability. The South African operations improved their B-BBEE status to level 2 (2017: level 3), valid until October 2018 and measured against the revised codes of good practice. Measurement of our B-BBEE status will revert to the revised Construction Charter in future. The Group made progress in implementing key transformation initiatives in 2018, including identifying, training, recruiting and retaining black professionals; supporting socio-economic developments with an emphasis on localised transformation in the communities within which Aveng operates; and creating opportunities for black-owned emerging micro-enterprises and qualifying small enterprises to access Aveng's procurement expenditure. Despite the financial challenges Aveng faced in 2018, the Group maintained the financial support of its two flagship socio-economic development projects which provide maths and science education to learners in disadvantaged areas, and remained a leading socio-economic development contributor in its sector.



Corporate governance report

This corporate governance report records the Aveng Board's endorsement of King IV and demonstrates how the four governance outcomes (and the 16 applicable sub-principles) are applied to the business.

During the transition from King III to King IV, the Board received regular support from the office of the company secretary. The Board and the corporate governance department received independent advice to ensure that the Board understands its duties within the context of current best practice in governance. During this process, changes were implemented to the governance structure, including adjustments to the composition of Board committees.

The Board monitors the King IV register at every board meeting.

King IV

Governance outcome one: Ethical culture

1. **The Board leads ethically and effectively**

   The Board commits to lead in an effective and ethical manner. The chairman leads this commitment, ensuring Board members' regular recommitment to the Aveng Code of Conduct, which is embedded in the Board charter and Board and committee meeting agendas. A register records and manages any conflicts of interest within the governing body. Management is delegated to ensure compliance with the Code of Conduct, and all employees and representatives are expected to act in a manner that inspires the trust and confidence of the general public.

   In addition to upholding sound ethics in the organisation, the Board must be effective. Each director must demonstrate the general knowledge, skill and experience to act in good faith and in a manner that is in the best interests of the Company. Formal annual reviews evaluate the performance of each Board member and the governing body. Assessments take various forms, from questionnaires to individual engagements with the chairman or an external specialist. In August 2017, the executive chairman held one-on-one discussions with each director, followed by a facilitated session with an external adviser using an online assessment tool which Board members completed. The evaluation confirmed that the Board is effective; however, there are areas of improvement such as information overload that could be eased by more precise information. The Board demonstrates strong skills in governance, finance, construction and risk management, as required for the current risks the Company experiences.

> - Conflict of interest register
> - Board performance evaluations
> - Management contracts, KPIs and SPIs

2. **The Board governs the ethics of Aveng in a way that supports the establishment of an ethical culture**

   As part of its charter mandate, the Board has developed a Code of Conduct to which the Board, the Group and its employees are expected to adhere. Adherence is monitored by the Group's internal audit function.

   The social, ethics and transformation committee monitors the governance of ethics. Annually, the committee reviews the Code of Conduct and relevant ethics policies to ensure that they give effect to the Board's direction on organisational ethics. The committee ensures that employees and stakeholders are informed of the code and policies, including reference to the relevant codes and policies in supplier and employee contracts, and employee induction and training programmes.

   The ethics policies (such as the anti-corruption policy and whistle-blowing policy) and the Aveng Code of Conduct form the behavioural framework of workplace conduct.

   The following initiatives were taken by Aveng to embed an ethical culture:

   - Aveng launched an ethics campaign for employees between January and March 2017. An e-learning tool was developed for ongoing training and rolled out in April 2017, with 146 nominated persons. This educated employees on what constitutes a conflict of interest and why it is important to declare it. Ethics and anti-corruption training remains part of the induction of new employees.
   - Consequence management was increased throughout the operating groups, and following due process, perpetrators were disciplined for unethical conduct. Nepotism, favouritism, theft and fraud are reported through Tip-offs Anonymous. These reports are reviewed by management or internal audit, and monitored by the social, ethics and transformation committee. Care is taken to ensure reviews are handled by individuals independent of the case under consideration. The committee reviews significant cases of employee conflicts of interest, misconduct or fraud and ensures they are addressed.
   - Aveng communicates regularly with its supply chain to reduce fraud. Supplier service level agreements include code of conduct clauses, and existing or new suppliers are educated on the way Aveng operates as well as the new B-BBEE codes and scorecard.

> - Conflict of interest annual declarations
> - Employee and supplier contracts

3. **The Board ensures that Aveng is, and is seen to be, a responsible corporate citizen**

   The social, ethics and transformation committee oversees that Aveng, as a responsible corporate citizen, complies with the Responsible Care Global Charter and the Constitution of South Africa (including the Bill of Rights), where applicable, and its own Code of Conduct and Ethics policies. The committee is mandated to oversee that Aveng's core purpose, values, strategy and conduct are congruent with responsible corporate citizenship. This includes monitoring the consequences of Aveng's activities for its employees, the economy, society and the environment.

Aveng adopts a stakeholder-inclusive approach that aims to balance the needs, interests and expectations of material stakeholders in the best interests of the Group over time. At each social, ethics and transformation committee meeting, the directors review management's corporate social investment report and provide direction to ensure that Aveng's "good news" undertakings are communicated to employees and the general public. For additional information, please refer to the stakeholder engagement report on page 14.

Through its Community Investment Trust, Aveng supported educational initiatives, with a focus on school mathematics and science in Limpopo and Diepsloot in Gauteng, and tertiary-level engineering. For additional information, refer to Aveng's corporate social investment report in the sustainability report at **www. aveng.co.za**.

› Stakeholder policy engagement

Governance outcome two: Performance and value creation

4. **The Board appreciates that Aveng's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process**

   Value creation is the Board's primary responsibility. Strategic initiatives designed by management are interrogated by the Board, taking both risks and opportunities into account. Through the audit and risk committee, the Board assesses the outcome of the business model against the positive and negative aspects of its external environment and its capital sources and relationships. Further detail is provided in the business model on page 8.

   Aveng's strategy is founded on the understanding that its long-term prosperity and sustainability depends on a climate of economic and social prosperity and a responsible attitude towards the natural environment. In February 2018, the Board disclosed its strategy implementation plan to shareholders. Aveng's strategy is aligned with its intent to create value in the short, medium and longer term, as detailed by executive management on pages 20 to 23.

   Aveng uses a "three lines of defence" combined assurance model to monitor risk. The first line addresses the implementation, quantification and management of risks and opportunities. The second line monitors the effectiveness of the management of risks and opportunities. The third line provides independent assurance by incorporating external audit into the process. The tender risk sub-committee assesses risks in tender submission and approves project execution mandates. Refer to the material matters report on page 12 and the audit and risk report on page 68.

   › Risk management framework

5. **The Board ensures that reports issued by Aveng enable stakeholders to make informed assessments of Aveng's performance and its short, medium and long-term prospects**

   Aveng's reporting framework is aligned to the requirements of a JSE-listed company. Our stakeholders are informed through employee communications, shareholder roadshows, Securities Exchange News Service (SENS) announcements and the integrated report. Our integrated report provides a thorough assessment of our performance, measured against our objectives. In our interim and annual reports, Aveng details both its historic performance and its future outlook.

   › Integrated report

Governance outcome three: Adequate and effective control

6. **The Board serves as the focal point and custodian of corporate governance in Aveng**

   The Board charter regulates the parameters within which the Board operates and ensures the application of the principles of good corporate governance in all dealings by, in respect of and on behalf of, the Company. It sets out the roles and responsibilities of the Board and directors, including the composition and relevant procedures of the Board. All directors are aware of their statutory requirements in terms of the Companies Act and the JSE Listings Requirements.

   The role of the chairman is described in detail in the charter, not least of which is the requirement for the chairman to be an independent non-executive director. This was a key focus area following the appointment of Eric Diack as executive chair. Based on guidance in King IV, this appointment mandated the appointment of independent non-executive director, Kholeka Mzondeki, as lead independent director. Following the resignation of Kobus Verster as chief executive officer (CEO), a ruling was made by the JSE to allow Mr Diack to act as both CEO and executive chairman while a search was conducted for a new CEO.

   As the focal point for governance, the Board approves the Group's strategic direction and monitors management's

Corporate governance report continued

implementation of the strategy. The Board is supported by Board committees which have delegated responsibility to assist the Board to fulfil certain specific functions. Committees are constituted with regard to the skills required for each committee to function optimally. Committee chairmen report to the Board at every Board meeting.

The Board is required to hold sufficient meetings to discharge all its duties, subject to a minimum of four meetings annually. The Board met 20 times. The details of the Board meetings held during the year, including attendance, are provided on pages 66 and 67.

› Board charter

7. The Board comprises the appropriate balance of power and has the skills, experience, diversity, independence and knowledge to effectively discharge its role and responsibilities

The formal process of nominating candidates for appointment as directors is overseen by the remuneration and nomination committee and approved by the Board. The committee routinely considers the composition, balance of skills, experience, diversity, independence and knowledge of the Board to determine their effectiveness to discharge their duties. Brief CVs of directors are available on page 10 and on the Aveng website at www.aveng.co.za.

In February 2018, the remuneration and nomination committee considered the composition of the Board. With the regretful death of one director in February 2018, two other directors not standing for re-election at the annual general meeting in November 2017, and the resignation of the CEO in September 2017, the size of the Board reduced to eight members, which is consistent with the average construction-sector board.

Subsequent to the year end on 31 August 2018, Mr Juba Mashaba resigned. This reduced the size of the Board to seven members.

The tenure of directors was evaluated for continuity of knowledge and fresh perspectives. The median tenure is 5,5 years. Non-executive directors who have served longer than nine years are assessed to ensure they remain independent. Ms May Hermanus reached her ninth year on the Board on 9 September 2018 and underwent an independence assessment. The Board concluded that Ms Hermanus portrays an independent state of mind and objective judgement and acts in the interest of the Company. All directors serve for a maximum of one year before being required to retire by rotation at the next annual general meeting. Thereafter one-third of the directors must retire by rotation every year, at which time they are eligible to stand for re-election.

When reviewing balance of power, the committee considered that 63% of directors are independent. At the end of his contracted period of executive duties, Mr Diack will continue as a director but will not be classified as independent for three years. The Board believes that no one individual has unfettered powers of decision-making and authority.

The independence of non-executive directors is evaluated annually by the remuneration and nomination committee against criteria set out in the Companies Act and King Code on Corporate Governance.

At 30 June 2018, 25% of Board members were women and 38% were black. The average age was 58 years.

The JSE and King IV require that a Board race and gender policy be included in the compliance framework, with the Board setting its own targets and timelines. Succession planning is built into the proposed target as part of Board rotation. Further, the heavy construction industry, represented by SAFCEC, recommends that 38% of Board members be from the historically disadvantaged sector. The minimum requirement of the Construction Charter is 20%. In 2017, the remuneration and nomination committee set a minimum compositional framework of 40% black directors and three female directors. While target composition numbers have been maintained in previous years, the reduction from 12 to seven directors adversely affected the Board's diversity. This will be addressed following the implementation of the new strategy. The Board remains satisfied that it has maintained an adequate balance of power and independence to discharge its role and responsibilities.

Median-5,5 years

New perspectives → Deep knowledge

TENURE ON BOARD	2,7	2,9	3,8	4,5	4,6	6,0	8,8	10,8
INDEPENDENCE	I NE	I NE	E	I NE	I NE	E	I NE	E
GENDER	M	M	M	F	M	M	F	M
ETHNICITY	W	W	W	B	W	W	B	B

New directors are selected according to the skills and experience required to benefit the diversity of the Board. A full list of directors' interests is maintained. At the beginning of each Board meeting (or as the need arises) directors confirm they have no conflicts of interest. Directors are required to recuse themselves from discussions and decisions on matters in which they have a material financial interest.

The appointment of executive and non-executive directors will be submitted to shareholders for approval at the first annual general meeting of the Company following the appointment as required by the Company's memorandum of incorporation (MOI) and these directors will hold office for a maximum period of three years, before retiring by rotation in accordance with the MOI.

- Succession planning for position of chairman
- Role, responsibilities and term in office of chairman and lead independent director to be documented in charter or elsewhere

8. The Board ensures structures to assist with the balancing of power and an effective discharge of its responsibilities but without abdicating accountability

The Board has five committees and one sub-committee to which it delegates certain of its functions. Committee deliberations do not reduce directors' individual and collective fiduciary duties and responsibilities, and they are required to exercise due care and judgement in accordance with their legal obligation. The committee chairmen report to the Board on their activities, approvals and recommendations and minutes are distributed to all Board members.

Further reporting functions of committees may include specific statutory or regulatory reports for shareholders in communications and publications such as the integrated report.

The Board charter requires the formation of an effective and independent remuneration and nomination committee to consider succession planning for the chairman, CEO and senior executives. The charter also requires that a social and ethics committee be constituted as required by the Companies Act.

Each committee has a formal charter which defines its purpose, and the roles and responsibilities of its members. Charters are reviewed annually and aligned to a workplan to ensure all focus areas are included in meeting agendas and considered. Committee dashboards monitor the status of actions required by the charter. The committee considers its performance annually and provides a written report to the Board confirming that it has acted within its mandate.

Directors receive regular briefings on the business of the Group, changes in risks, applicable laws and the operating environment. Directors, however, are expected to keep abreast of developments in the external environment that may have a material impact on the Group. Any Board member may attend committee meetings as observer but not participate without the consent of the chairman; they do not have a vote and are not entitled to fees.

Membership and constitution of each committee is guided by the recommendations of King IV to ensure that no individual dominates decision-making within the governance structures and that no undue dependence is caused. Refer to page 10 for committee membership.

- Charters of the remuneration and nomination committee, the social, ethics and transformation committee, the audit and risk committee and the safety, health and environmental committee
- Annual committee workplans
- Dashboards to track committee actions

9. The Board ensures that the evaluation of its own performance and that of its committees, its chair and its individual members, supports continued improvement in its performance and effectiveness

The Board assumes responsibility to evaluate the performance of the Board and chairman, directors, committees and committee chairmen. For every alternate year, provision is made in the Board's annual work plan to consider, reflect on and discuss this performance. This formal process may be done by way of a self-evaluation or an external evaluation. All outcomes and areas of improvement are noted in a report to the Board. The nomination for the reappointment of a director may only occur after an evaluation of performance and attendance of the director at Board and relevant committee meetings.

Additional information on the evaluation process, results and actions plans is available on page 58.

Information on the assessment of chief financial officer is available in the audit and risk committee report on page 69.

The audit and risk committee's statement of satisfaction about independence is provided in the audit and risk committee report on page 68.

Corporate governance report continued

10. The Board ensures that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities

The Board appoints the CEO to act as the chief representative of the Group in terms of an agreed framework of delegated authority. The collective responsibilities of management vest with the CEO who is ultimately responsible for the management functions of the Company and the Group and accountable to the Board. The CEO assumes responsibility for leading the implementation and execution of the approved strategy and serves as the link between management and the Board. The role and functions of the CEO are formalised against performance targets which are measurable and can be evaluated.

The executive chairman, Erick Diack, is also the interim CEO. Mr Diack was an independent non-executive director before signing a limited duration contract to fulfil the role of executive chairman. Notwithstanding this limited duration, the agreement may be terminated prior to that date on notice as per the Basic Conditions of Employment Act. Upon termination of the chairman's executive duties, he may continue as a non-executive director but he will not be classified as independent for three years following the termination of his executive duties.

Succession planning for the CEO position has been considered by the Board. As Mr Diack is no longer an independent non-executive director, it has become necessary for the committee to consider the future chairman role. Diversity will also be considered when making future Board appointments, given the adverse impact of recent resignations on the Board's demographic profile.

Delegation of authority

Aveng has a comprehensive framework for the delegation of authority, which has been approved by the Board. Delegation of authority assigns certain responsibility and authority to senior executives to further assist the Board to discharge its duties. It assigns responsibilities and governs subsidiary companies and Aveng's business units. Mechanisms such as strategies, policies, processes and documents are implemented to support good governance.

> › Delegation of authority
> › Succession planning for CEO, executive management and other key positions

Company secretary

Ms M Nana was the company secretary during the period under review. Her primary role was to ensure that the Board is aware of its fiduciary duties and responsibilities. The company secretary plays a key role in keeping the Board aware of relevant changes in legislation and governance best practice. Other key performance areas of the company secretary include overseeing the induction of new directors as well as the ongoing education of directors. The company secretary is also secretary to the Board committees and the Board has unfettered access to the services of the company secretary.

An annual evaluation of the company secretary was carried out by the audit committee, on behalf of the Board. The results of the evaluation confirmed that the company secretary continues to demonstrate the requisite level of knowledge and experience to carry out her duties. The Board is also comfortable that she maintained an arm's length relationship with individual directors.

Ms Nana resigned with effect from 30 June 2018 to take up another position. Ms E Mandizha was appointed acting company secretary from 1 July 2018 and subsequently appointed group company secretary with effect from 13 September 2018.

11. The Board should govern risk in a way that supports the organisation in setting and achieving its strategic objectives

The Board has revised its risk approach to align with King IV's recommendation that both opportunities and associated risks should be considered when developing strategy. The Board's mandated duties in respect to risk are to:

- Ensure that an effective and appropriate risk management process is implemented across the Group;
- Ensure that appropriate safety, health and environmental management policies and procedures exist throughout the Group, monitoring performance and responsibly overseeing the safety of its employees and the public;
- Assume ultimate responsibility for financial, operational and internal system of control, ensuring adequate reporting on these matters by the respective committees;
- Ensure that appropriate processes exist in the Group to manage technology and information risks.

The responsibility of risk is delegated to the audit and risk committee; however, the Board is the ultimate custodian of risk governance. The Board recognises that risk must be integral to the way it makes decisions and executes its duties. To this end, the audit and risk committees were formally merged in February 2018. This, together with Aveng's three lines of defence model of risk management, has strengthened the Company's ability to identify, evaluate and manage risks and opportunities.

A comprehensive risk register is tabled at all audit and risk committee meetings and operational lessons learnt are taken into consideration when formulating appropriate measures for mitigating risks.

The tender risk committee considers significant tenders for approval prior to submission and is governed by a separate charter. The audit and risk committee notes the capital commitment made by relevant entities within the Group in respect of tenders approved by the tender risk committee and ensures that the limits of authority, as amended from time to time, are adhered to.

The audit and risk committee is satisfied that during the year under review it has complied with its responsibilities under the charter, as well as its legal responsibilities in terms of the Companies Act, 71 of 2008, as amended. The risk committee oversees the implementation of all three lines of defence and satisfies itself through the activities of the tender risk committee that adequate business processes are followed.

The audit and risk committee report on page 68 discusses the objectives of the committee, key risks, undue, unexpected or unusual risks and risks taken outside of risk tolerance levels.

- Risk policy
- Risk register
- Lessons learned

12. The Board should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives

The Board is assisted by the audit and risk committee in applying oversight to IT governance, risk and compliance. The committee sets the direction to ensure that IT governance aligns with Aveng's performance and sustainability objectives. The audit and risk committee evaluates the Group's overall exposure to IT risks from a business and strategic perspective, specifically how they relate to financial reporting and the going concern assessment.

The audit and risk committee has ensured that IT policies and the requisite procedures are in place to provide for the efficient management of information assets. These frameworks are reviewed annually. Management is required to confirm that controls are in place to address the risks associated with technology. Independently, the Group's internal auditors assess the control mechanisms and outsourced services and report on this to the Board. Third-party services are governed by service level agreements.

The audit and risk committee considers IT risks as a standing agenda item.

- IT policy

13. The Board should govern compliance with applicable laws and adopted non-binding rules, codes and standards in a way that it supports the organisation being ethical and a good corporate citizen

The Board charter requires that the Board ensures that compliance risk forms part of the Group's risk management process, and that the Board assumes ultimate responsibility for regulatory compliance and ensuring that a framework is implemented to guide the effective management of the Group's compliance with applicable laws and consideration of adherence to non-binding rules, codes and standards.

Compliance reports are presented quarterly to the audit and risk committee and social, ethics and transformation committee and annually to the Board. The Board monitors compliance with:

- JSE Limited Listings Requirements: Aveng, as a JSE listed company, is subject to, and remains compliant with, the JSE Listings Requirements in line with the advice of Aveng's sponsor, UBS South Africa Proprietary Limited.
- King IV: Aveng continued to focus on applying the recommendations of King III and is satisfied that it has substantially applied these principles. At the same time, the Board started adopting King IV. Additional information is available at www.aveng.co.za
- Companies Act: The social, ethics and transformation committee ensures compliance with all relevant governance provisions of the Act.
- Other legislation: A Board-approved compliance framework is implemented by Aveng and its operating groups in line with an annual compliance plan. Key milestones are monitored by the audit and risk and the social, ethics and transformation committees.
- SAFCEC: Aveng is a member of the South African Federation of Civil Engineering Contractors which regulates the relationship between employers, employees and trade unions.

The legal compliance team was tasked to identify the laws, regulations, codes and standards that impact the Aveng Group's operations. Legal compliance systems and processes are continuously applied to mitigate the risk of non-compliance with the laws in various jurisdictions in which Aveng operates. A library of policies provides the necessary guidance. If necessary, external advisors provide independent assurance on the effectiveness of Aveng's compliance management.

Corporate governance report continued

The social, ethics and transformation committee monitors key environmental matters in operational areas to ensure compliance with all applicable regulatory bodies.

Compliance Regulatory Assurance certification is provided bi-annually by all operating groups in line with the requirements of the Aveng integrated report, King IV standards and the Aveng Group compliance framework. All Aveng operating groups are required to certify that they discharged their responsibility in establishing and maintaining an effective compliance framework.

Aveng operations monitor and track responses to compliance requirements set by regulators as part of the SHE management systems. Details are provided in the sustainability report at www.aveng.co.za.

- Compliance policies
- Code of conduct

14. The Board should ensure that the organisation remunerates fairly, responsibly and transparently to promote the achievement of strategic objectives in the short, medium and long term

The Board is assisted by the remuneration and nomination committee to oversee the governance of all remuneration matters. The remuneration policies and practices are aligned to Aveng's objectives of value creation, fairness and competitiveness in a sustainable manner and the remuneration policy is approved by shareholders at each AGM. The Board is required to oversee that implementation and execution of the remuneration policy achieves the objectives of the policy.

In terms of the requirements of the Companies Act, fees for directors for services are approved by shareholders by special resolution within the two years preceding payment. The remuneration policy and implementation report are tabled every year for separate non-binding advisory votes by shareholders. The remuneration policy must record measures that the Board commits to take if either of the above receives 25% or more votes against. Refer to the remuneration report on page 70.

The committee reviews and approves the remuneration of executive directors and senior management. The Company discloses the remuneration of each director and prescribed officer in the integrated report. Refer to pages 84 to 92.

- Remuneration policy
- Remuneration report

15. The Board ensures that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports

The audit and risk committee is the governing body for the combined risk management assurance model, approving the risk management structure. The risk management philosophy adopted by Aveng is the "three lines of defence" model with internal and external measures providing assurance. The internal auditing function provides assurance on the effectiveness of governance, risk management and internal control to the audit and risk committee. This is supplemented by an external audit function which independently verifies the accuracy of financial results and certain non-financial data. The audit and risk committee oversees the activities of the external and internal audit functions.

Control consciousness has improved. An internal control forum is held regularly, chaired by the chief financial officer and attended by internal auditors, external auditors, and finance directors of the operating groups. Sign-off by all operating groups indicates that there is an acceptance of critical controls that must work. Critical control workshops are held quarterly at the operating groups to help identify, document and evaluate these critical controls.

Internal audit

The audit and risk committee ensures that structures are in place to achieve an effective internal control environment. The committee delegates responsibility to the internal audit function to maintain robust controls and an effective internal control environment. The Group's internal audit function is outsourced to Deloitte. The committee is responsible for ensuring that the internal auditor is independent and has the requisite resources, budget, standing and authority to discharge its functions. The audit and risk committee approves the internal audit plan and ensures that there is an overlap between external audit and internal audit to optimise the combined assurance model. Internal audit provides a written assessment to the Board on the effectiveness of the system of internal controls and risk management. This enables the Board to report on the effectiveness of the system of internal controls in the integrated report.

The audit and risk committee annually reviews the expertise, resources and experience of the Company's finance director. This role is also assessed through the Board and committee evaluations.

External audit
The audit and risk committee reviews the quality and effectiveness of the external audit process. It nominates an external auditor for appointment by shareholders and approves the terms of engagement and remuneration of the external auditors, ensuring that both the firm and individual are accredited by the JSE Limited.

Ernst & Young, the appointed external auditor, has been the external auditor of Aveng Limited since 29 July 1986. Rotation of the designated external audit partner takes place every five years and this took place in 2017. The audit and risk committee is satisfied that Ernst & Young is independent.

The audit and risk committee is satisfied that it has complied with its regulatory and other responsibilities under the charter, as well as its legal responsibilities in terms of the Companies Act, 71 of 2008, as amended. Refer to page 68 for the report of the audit and risk committee.

Control self-assessment (CSA)
Control self-assessments are performed by management and reviewed by Group internal audit. These assessments hold staff accountable where controls have been certified as having been performed.

Governance outcome four: Trust, good reputation and legitimacy

16. In the execution of its governance roles and responsibilities, the Board adopts a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time

Aveng recognises that robust stakeholder relationships and engagement are key to creating and unlocking real stakeholder value. Aveng pursues open, relationship-driven communication with stakeholders to promote confidence, mutual trust and shared growth. Aveng carefully considers feedback from stakeholders and makes every effort to reflect on lessons from the feedback in the Group's future policies and actions. To this end, Aveng has identified its stakeholder groups and actively balances their legitimate and reasonable needs, interests and expectations. Refer to the stakeholder engagement report on page 14.

- Stakeholder policy
- Group governance framework
- Group delegation of authority

Board and committee composition

Timeline of changes to Board and committee composition

CEO = chief executive officer
EC = executive chairman
LID = lead independent director
INED = independent non-executive director
NED = non-executive director
AGM = annual general meeting

Date	Change	Impact
23 August 2017	MI Seedat (INED) resigned as chairman. EK Diack appointed executive chairman for a limited term	The new EC would work with CEO, HJ Verster, to support the executive team to implement the strategy
23 August 2017	The appointment of EK Diack as EC required changes to the audit committee	EK Diack resigned as chairman of the audit committee. PA Hourquebie (INED) appointed chairman and PJ Erasmus (INED) appointed a member of the committee
23 August 2017	KW Mzondeki (INED) appointed as lead independent director	This retains the independence of the Board following EK Diack's appointment as EC and complies with the King IV requirement that a Board should comprise a balance of power, with a majority of non-executive directors, the majority of whom should be independent
29 August 2017	Competition law reference committee dissolved	
22 September 2017	HJ Verster resigned as CEO and director	The Board was reduced from 12 to 11 members
2 October 2017	EK Diack appointed acting CEO	A dispensation was secured from the JSE to allow EK Diack to act as both CEO and executive chairman until a new CEO is appointed
24 November 2017	MI Seedat and TM Mokgosi-Mwantembe did not stand for re-election at the AGM	Reduction in directors (11 to 9) Reduction in non-executive directors (8 to 6) Reduction in number of black directors (5 to 3) The following committees were affected: Remuneration and nomination; social, ethics and transformation; safety, health and environment; risk; and investment
24 November 2017	MA Hermanus appointed chairman of social, ethics and transformation committee	Replaced MI Seedat Achieved required minimum of three NEDs
24 November 2017	KW Mzondeki appointed chairman of remuneration and nomination committee	Replaced TM Mokgosi-Mwantembe Increased committee to two members
24 November 2017	EK Diack appointed to the remuneration and nomination committee	Replaced MI Seedat Achieved required minimum of three NEDs, the majority of whom are independent

Timeline of changes to Board and committee composition

CEO = chief executive officer
EC = executive chairman
LID = lead independent director
INED = independent non-executive director
NED = non-executive director
AGM = annual general meeting

Date	Change	Impact
4 February 2018	Death of PJ Erasmus (INED)	Reduction in directors (9 to 8) Reduction in NEDs (6 to 5) Representation of white directors reduced (67% to 63%) Representation of male directors reduced (78% to 75%) Risk committee chairman position vacant and below minimum requirement of three NEDs Tender risk committee chairman position vacant Audit committee did not meet statutory requirement of three INEDs
5 February 2018	The death of PJ Erasmus prompted an immediate review of the composition of the Board and its committees by the remuneration and nomination committee	During the review of the Board's composition, it was determined that future appointments would take into consideration that: ▸ EK Diack was no longer an INED ▸ The Board's demographic profile was impacted by the resignation of two black non-executive directors ▸ King IV recommends that the social, ethics and transformation committee include an ED
21 February 2018	Risk and audit committees combined	The committees had conducted special combined meetings since August 2017 to support implementation of the strategy. The committee comprises the following INEDs: PA Hourquebie, KW Mzondeki, SJ Flanagan, MJ Kilbride. The composition of the committee complies with King IV
22 February 2018	SJ Flanagan appointed to the safety, health and environmental and audit and risk committees, and as an invitee to remuneration and nomination committee	
27 February 2018	Aveng announced its strategy	The strategy created barriers to the appointment of a new CEO
4 April 2018	JSE permitted EK Diack to continue as acting CEO and EC until 31 December 2018	

Board and committee composition continued

Attendance at Board and committee meetings

Attendance at Board meetings, despite the large number of special meetings, remained at 97%.

Four regular Board meetings, 16 special Board meetings (20 total)

Director	Meetings attended	31/07/2017	18/08/2017	23/08/2017	15/09/2017	22/09/2017	27/10/2017	01/12/2017	29/01/2018	23/02/2018	07/03/2018	16/03/2018	28/03/2018	12/04/2018	24/04/2018	02/05/2018	07/05/2018	14/05/2018	17/05/2018	29/05/2018	15/06/2018
MA Hermanus	18/20	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓		✓	✓	✓	✓	✓	✓	✓
MI Seedat[3]	6/6	✓*	✓*	✓	✓	✓	✓														
HJ Verster[2]	4/4	✓	✓	✓	✓																
JJA Mashaba	20/20	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
MJ Kilbride	20/20	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
EK Diack[1]	20/20	✓	✓	✓*	✓*	✓*	✓*	✓*	✓*	✓*	✓*	✓*	✓*	✓*	✓*	✓*	✓*	✓*	✓*	✓*	✓*
TM Mokgosi-Mwantembe[4]	5/6	✓	✓	✓	✓	✓															
PA Hourquebie	20/20	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
KW Mzondeki	18/20	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓
SJ Flanagan[5]	19/20	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
AH Macartney	20/20	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
PJ Erasmus[6]	8/8	✓	✓	✓	✓	✓	✓	✓	✓												

Board (attendance at Board and committee) Special Board

Attendance at audit and risk committee meetings

There was an evolution of change leading to the amalgamation of the audit and risk committees. There was one risk meeting, five audit and special audit meetings, and two special combined audit and risk meetings before the first official combined audit and risk meeting on 21 February 2018. There was 97,4% attendance by committee members.

Director	Meetings attended	07/07/2017	31/07/2017	11/08/2017	14/08/2017	15/08/2017	20/09/2017	29/11/2017	29/11/2017	21/02/2018	13/06/2018
EK Diack[1]	5/5	✓*	✓*	✓*	✓*	✓*					
PJ Erasmus[6]	3/4					✓	✓	✓*			
SJ Flanagan[5]	5/5					✓	✓	✓		✓	✓
PA Hourquebie	9/9	✓	✓	✓	✓	✓	✓*		✓*	✓*	✓*
MJ Kilbride	5/5					✓	✓	✓		✓	✓
KW Mzondeki	9/9	✓	✓	✓	✓	✓	✓		✓	✓	✓
MI Seedat[3]	2/2					✓	✓				

Risk
Audit and special audit
Special combined risk and audit
Combined risk and audit

1 EK Diack appointed executive chair and resigned as chairman of audit committee – 23 August 2017
2 HJ Verster resigned as CEO – 22 September 2017
3 MI Seedat resigned from the Board and committees – 24 November 2017
4 TM Mokgosi-Mwantembe resigned from the Board and committees – 24 November 2017
5 SJ Flanagan appointed to SHE and to audit and risk committees
6 PJ Erasmus deceased – 4 February 2018
✓ Denotes a current member of the Board or committee
✓ Denotes chairman of the Board*

Attendance at remuneration and nomination committee meetings

The remuneration and nomination committee held five scheduled meetings and five special meetings during the year. Despite all the changes to this committee they maintained a high attendance of 93,3% during the year.

Director	Meetings attended	14/08/2017	21/08/2017	22/08/2017	29/08/2017	19/09/2017	28/11/2017	20/12/2017	20/02/2018	22/03/2018	12/06/2018
EK Diack[1]	5/5						✓	✓	✓		✓
PA Hourquebie	10/10	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
TM Mokgosi-Mwantembe[4]	5/5	✓*	✓*	✓*	✓	✓*					
KW Mzondeki	5/5						✓*	✓*	✓*	✓*	✓*
MI Seedat[3]	3/5	✓			✓	✓					

Remuneration and nomination (14/08/2017, 19/09/2017, 28/11/2017, 20/02/2018, 12/06/2018) | Special remuneration and nomination (21/08/2017, 22/08/2017, 29/08/2017, 20/12/2017, 22/03/2018)

Attendance at safety, health and environmental committee meetings

The safety, health and environmental committee held four meetings during the year. There was 91,7% attendance by the committee members.

Director	Meetings attended	14/08/2017	27/11/2017	19/02/2018	11/06/2018
SJ Flanagan[5]	2/3		✓		✓
MA Hermanus	4/4	✓*	✓*	✓*	✓
MJ Kilbride	4/4	✓	✓	✓	✓
MI Seedat[3]	1/1	✓			

Attendance at investment committee meetings

The investment committee held four meetings during the year. There was 88,9% attendance by the committee members.

Director	Meetings attended	11/09/2017	24/10/2017	29/11/2017	14/12/2017
MI Seedat	1/2		✓		
EK Diack	4/4	✓*	✓*	✓*	✓*
MJ Kilbride	3/4		✓	✓	✓
PA Hourquebie	4/4	✓	✓	✓	✓
SJ Flanagan	4/4	✓	✓	✓	✓

Attendance at social, ethics and transformation committee meetings

The social, ethics and transformation committee held four meetings during the year. There was 100% attendance by the committee members.

Director	Meetings attended	14/08/2017	28/11/2017	20/02/2018	12/06/2018
MA Hermanus	3/3		✓*	✓	✓
PA Hourquebie	4/4	✓	✓	✓	✓
TM Mokgosi-Mwantembe[4]	1/1	✓			
KW Mzondeki	4/4	✓	✓	✓	✓
MI Seedat[3]	1/1	✓*			

[1] EK Diack appointed executive chair and resigned as chairman of audit committee – 23 August 2017
[2] HJ Verster resigned as CEO – 22 September 2017
[3] MI Seedat resigned from the Board and committees – 24 November 2017
[4] TM Mokgosi-Mwantembe resigned from the Board and committees – 24 November 2017
[5] SJ Flanagan appointed to SHE and to audit and risk committees
[6] PJ Erasmus deceased – 4 February 2018
✓ Denotes a current member of the Board or committee
✓ Denotes chairman of the Board*

Additional information on the board committees is available in the Aveng sustainability report at **www.aveng.co.za**

Audit and risk committee report

Audit and risk committee report

In August 2017, the appointment of Mr Eric Diack as executive chairman of the Group required a change in the composition of the audit committee. Mr Diack stepped down as chairman and member of the audit committee. Mr Philip Hourquebie was appointed as chairman of the audit committee. Mr Peter Erasmus was appointed at that time to replace Mr Diack as a member of the audit committee. Sadly, Mr Erasmus passed away on 4 February 2018. Subsequently, in February 2018, the activities of the audit and risk committees were combined. As a result, Messrs Michael Kilbride and Sean Flanagan now serve as standing members of this combined committee. The committee has pleasure in submitting its report to the shareholders as required in terms of section 94(7) of the Companies Act No 71 of 2008.

Membership of the committee

The committee comprised the following members at the date of this report:

- PA Hourquebie – Chairman
- KW Mzondeki
- MJ Kilbride
- S Flanagan

Each member is an independent director and has the adequate relevant knowledge, the financial expertise and experience to equip the committee to properly execute its duties and responsibilities.

The experience and qualifications of the members are set out in the integrated annual report.

Functions of the committee

During the year under review, there were two special audit meetings and five special combined risk and audit meetings before the first official combined audit and risk meeting on 21 February 2018. A total of nine meetings were held up to June 2018. Details of attendance are set out in the corporate governance section of the integrated annual report.

The committee reports that it has adopted appropriate formal terms of reference as its mandate and has regulated its affairs in compliance with this mandate, and has discharged all the responsibilities set out therein. During the financial year under review, the committee reviewed the following matters:

- The quarterly and half-yearly financial reports, the integrated annual report, the annual financial statements and accounting policies for the Company and all subsidiaries
- The effectiveness of the combined assurance model
- The reports of the internal audit function on the state of internal control, including its forensic reports regarding fraud prevention and detection
- The effectiveness of the internal audit function
- The auditor's findings and recommendations
- Statements on ethical standards for the company, and considered how they are promoted and enforced.

Independence of auditor

The committee reviewed a presentation by the external auditors and, after conducting its own review, is satisfied with the independence and objectivity of Ernst & Young Inc. as external auditors and Mr AJ Carshagen as the designated auditor. The committee further approved the fees to be paid to Ernst & Young Inc. and its terms of engagement, and pre-approved each proposed contract with Ernst & Young Inc. for the provision of non-audit services to the Company.

Statutory reporting

The committee has evaluated the annual financial statements of Aveng and the Group for the year ended 30 June 2018 and, based on the information provided to the committee, considers that the Company and Group comply, in all material respects, with the requirements of the Companies Act of South Africa, the International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and applicable legislation and financial pronouncements as issued by the Financial Reporting Standards Council.

Internal financial controls

The committee agendas provide for confidential meetings between committee members and both the internal and independent external auditors.

The committee has oversight of the Group's financial statements and reporting process, including the system of internal financial control. It is responsible for ensuring the Group's internal audit function is independent and has the necessary resources, standing and authority in the organisation to discharge its duties. The committee oversees cooperation between internal and external auditors, and serves as a link between the Board of directors and these functions. The head of internal audit reports administratively to the chief financial officer and functionally to the chairman of the committee.

Based on information from, and discussions with, management and the Group internal audit function, the audit and risk committee confirms that it has no reason to believe that there were any material breakdowns in the design or operating effectiveness of internal financial controls during this financial year which have not been addressed or are not in the process of being addressed. The financial records can therefore be relied upon for the preparation of the annual financial statements.

Statement of internal control and risk management

The risk management function together with management, identifies and monitors potential risks faced by the Group and the risk mitigation strategies proposed and implemented by management. The internal audit functions monitor the effectiveness of internal control systems and make recommendations to management and the audit and risk committee. The Board has concluded, based on the recommendation of the audit and risk committee and their own understanding, that there is no reason to believe that there were any material internal control or risk management shortcomings during the current financial year that have not been addressed or are in the process of being addressed.

Expertise and experience of the chief financial officer and the finance function

In accordance with the Johannesburg Stock Exchange Limited (JSE) Listings Requirements, the audit and risk committee is required to consider the appropriateness of the expertise and experience of the Group CFO. In respect of this requirement and for the year under review, the committee is satisfied that Mr Adrian Macartney, the Group CFO, possesses the appropriate expertise and experience to fulfil his responsibilities in that position. While the Group finance function was enhanced with the appointment of a Group financial controller during the year, the finance function has been depleted due to the resignation of a number of staff. Certain key vacancies were filled during the period. Management will be reviewing the function to ensure it is fit for purpose for the Group in transition and in the medium term for the newly constituted Group through a structured recruitment plan, combining talent management and succession planning.

Expertise and experience of the company secretary

The committee has satisfied itself that the company secretary had the appropriate competence and experience and maintained an arm's length relationship with directors. Ms M Nana resigned with effect from 30 June 2018. Ms E Mandizha was appointed acting company secretary from 1 July 2018 and subsequently appointed group company secretary with effect from 13 September 2018.

Recommendation of the annual financial statements and integrated annual report

The committee, having fulfilled the oversight role regarding the reporting process for both the annual financial statements and the integrated annual report and having regard to material factors that may impact the integrity of these reports, recommends the integrated annual report and the annual financial statements for approval by the Board of directors.

PA Hourquebie
Chairman

31 October 2018

Remuneration report

Part 1: Overview

Statement from the chairman of the remuneration and nomination committee

Dear stakeholders

The remuneration environment for the reporting year and for the upcoming year have been characterised by the challenging times in which we find ourselves as a business. As you are aware, a strategic review was implemented in the 2018 financial year. To finalise the capital market transactions, dispose of the non-core businesses (Aveng Trident Steel, Aveng Grinaker-LTA and Aveng Manufacturing), and improve operational performance, Aveng has realised the need for it to re-evaluate and adapt its remuneration policy and strategy. The new strategy will thus focus on the success and completion of the transactions, and business beyond the implementation of the strategic review.

To address the challenges which have resulted from this demanding period, the remuneration and nomination committee (remcom) has made strategic remuneration decisions, including proposing a new special short-term incentive to be implemented in the 2019 financial year and developing a retention strategy.

The purpose of the new short-term incentive is to retain and motivate key employees who are pivotal to the successful execution of the transactions and disposal of the non-core businesses, and who will be key in assisting Aveng to navigate out of this difficult period and restore sound performance. In addition, it will incentivise employees who are instrumental in ensuring that the non-core businesses to be disposed of remain viable pending the sale.

Human resource management in Aveng seeks to enable the attraction, development, performance management, reward and retention of high-performing employees. As an imperative business focus, Aveng strives to ensure that it nurtures an inclusive environment which benefits and empowers young talent. An important part of meeting Aveng's overall strategic and operational objectives involves equipping managers with the skills and capability to effectively engage with employees. This will ensure clear accountabilities and line of sight between organisational objectives and the outputs required of each employee. This is particularly important during the current business context.

Remuneration and nomination committee: overview of 2018

- Executive directors and non-executive directors' total pay benchmarking against the market, and review and approval of executives' remuneration
- Moderate annual salary increases, based on market benchmarks and performance reviews
- Annual increase mandate and its application relative to performance and affordability reviewed, approved and implemented within the mandate
- Setting and confirmation of performance conditions and targets for the approved Aveng executive short-term incentive plan for the 2018 financial year
- Implementing key performance indicators (KPIs) for executives, management and other employees
- Review of composition of the Board and tenure of executive directors and non-executive directors. New committee chairpersons appointed to address board succession planning
- Review and approval of all senior executive director appointments and terminations.

Within the context of the "business unusual" circumstances, the remcom resolved to introduce the 2019 Performance Incentive Plan (the Plan) to drive performance, retain, and remunerate key employees in the short to medium term so as to ensure the achievement of the transactional goals of the strategic review. This Plan has very specific KPIs associated with it, with payouts for some employees in terms of the Scheme being based on the achievement of milestones. The Scheme has a shorter vesting period than our usual long-term incentives. This was considered critical to focus the attention of employees on, and reward employees for, achieving the KPIs which have been identified as being vital to the ongoing success and sustainability of the business as a whole. The remcom will monitor the impact of this proposed scheme over the medium term to establish delivery against desired outcomes.

Statement of fairness and responsibility

We are constantly reviewing the way in which we remunerate our employees to ensure that our pay is fair, responsible and transparent. Our employees' remuneration should be deemed impartial, objective and rational. We deliver on these criteria by ensuring that all remuneration is approved by the appropriate authority and is subject to oversight.

Shareholders

We experienced a decline in shareholder approval of our policy in 2017 compared to the previous years and resolved to engage our shareholders on their concerns. The table below reflects the previous year's approval percentages.

2014 %	2015 %	2016 %	2017 %
95,8	97,6	81,9	63,8

The Company has consulted extensively with its shareholders, and the following table indicates the material shareholder concerns alongside the Company responses thereto:

Shareholder feedback	Comments and action taken
Lack of performance conditions for awards made under the cash settled LTIP which substituted the Aveng 2015 LTIP.	The 2019 Performance Incentive Plan is fully linked to performance to ensure the achievement of appropriate milestones.
2018 Special Incentive Scheme: ▸ Lack of performance conditions for the cash award and retention awards, ▸ Lack of disclosure of the specific performance conditions regarding the performance awards.	No further awards will be made in terms of the 2018 Special Incentive Scheme. The 2019 Performance Incentive Plan is fully linked to performance to ensure the achievement of appropriate milestones.

We have provided detailed disclosure of the KPIs which the 2019 Performance Incentive Plan are based on, in the spirit of King IV compliance and to enhance the transparency of our reporting. These are focused on the three key areas which are vital to our new strategy, being operational, transactional and financial.

2019 reward focus areas

- Designed the proposed 2019 Performance Incentive Plan to support and reward the execution of the strategic review
- Ongoing talent attraction and retention under prevailing business circumstances
- Introduction of transactional, sustainability and behavioural measures for short-term incentives
- Driving a high-performance culture in our core businesses
- Working towards aligning Moolmans and McConnell Dowell's remuneration structures so that Group can operate as a joint multinational company.

Remuneration report continued

Part 2: Remuneration policy overview

Introduction

To support the strategic review, there is a need for tailored incentive plans which will aid in executing the strategic vision of the Group. To this end, the 2019 Performance Incentive Plan will be put in place for the 2019 financial year. This Plan is a three-tiered plan aimed at three critical groups of employees within Aveng, these being centre, core and non-core. The Plan will drive key performance targets in these areas and will replace the current Short-Term Incentive (STI) Plan and the 2015 Long-Term Incentive Plan (LTI) will be suspended for this year.

The adoption of the above 2019 Performance Incentive Plan will ensure that Aveng's remuneration strategies guarantee continuous and consistent alignment of employee behaviour with shareholder value creation, its objectives and values as demonstrated in the diagram below:

1. Aveng's remuneration policy must be consistent with, and aligned to the vision, mission, values and strategic business objectives (both short-term and long-term) of the Group.

2. Our pay should be deemed to be fair, responsible, transparent and sustainable by all stakeholders.

   We aim to achieve this through:
   - A robust and universal job grading system that enables accurate job grading results for benchmarking purposes
   - Regular remuneration benchmarking for all grades against the general market and the various sectors in which we operate (construction, manufacturing and mining industries) using independent salary surveys
   - Development of market-related pay scales by grade for comparative purposes
   - Addressing any race and gender-based unjustifiable pay inequities within the Group.

3. To attract, retain and motivate employees, we seek to articulate an attractive and compelling value proposition for current and prospective employees. We strive to accomplish this by providing a transparent remuneration structure with an appropriate mix of guaranteed pay, variable pay and benefits.

4. Both company and individual performance is measured and forms the basis for reward and incentivisation:
   - Incentive pools are shaped by Group and operating segment profitability
   - The pay mix supports the Group's strategy of striving for outperformance and that on-target earning potentials are directly linked to performance and designed to promote the development of a high-performance culture
   - We reward employee contributions based on a "fit-for-purpose" approach which takes line of sight and influence into account.

   The existence of a comprehensive performance management system and a coaching-for-performance culture, including performance contracting and regular performance assessments.
   - Achieve the motivational impact required to deliver the Group's strategy and performance targets and promote the desired behaviour
   - Recognise and reward exceptional performance while penalising mediocre or poor performance.

5. Aveng's remuneration policy elements, as listed above, aim to drive stakeholder value while ensuring:
   - Compliance with all remuneration governance covenants and applicable legislation
   - Transparency to enable stakeholders to make reasonable assessments of remuneration practices and underlying governance processes of the Group.

The best interests of the Group, its shareholders, and its broad internal and external stakeholder base are upheld.

Remuneration

Aveng remuneration and nomination committee's discretion

The remcom has discretion to modify, reduce, remove and / or defer the STI, including the adjustment of STI payments for anomalies or unintended consequences of the application of the formula (this is referred to as "malus"). The committee will also have discretion to apply the malus provisions to the bonus shares as part of the STI structure and clawback provisions to the cash retention awards made under the 2018 Special Incentive, following recommendation by the CEO. In instances where the CEO is implicated, the remcom will apply its own discretion taking into account the relevant facts and circumstances.

Remuneration structure

Aveng's remuneration structure provides for guaranteed and variable remuneration components. The guaranteed component comprises employees' total cost of employment (TCOE) or total guaranteed pay (TGP). The variable pay portion is driven by both Group and individual performance and the quantum varies year-to-year. Part 2 of this report focuses on executive management (executive directors and prescribed officers) as recommended by King IV.

Base / guaranteed pay

Guaranteed monthly salary or hourly pay rate of the employee

The Group's guaranteed pay philosophy is to pay all employees median of the market for full competency and expected performance, while allowing for performance-based differentiation through variable pay. It is also designed to attract and retain employees in line with the scope, nature and skills requirements of the role.

When setting and reviewing the guaranteed pay policy, various factors, including the following, are taken into account:

- The need to ensure that executive pay is market-related and performance-based
- Market pay trends, including benchmarking against the specific industries and disciplines within which the Group operates
- Macro-economic factors such as inflation, market increase projections and salary movement within the market
- Movement in costs of particular benefits
- Group performance and affordability.

Guaranteed pay is reviewed annually in January. Individual performance is assessed and rated and this assessment together with the employee's compa-ratio to the relevant market median, informs a pay increase. This increase supported by salary surveys, projected salary movements, inflation, company performance and affordability is reviewed by the remcom and recommended to the Board for approval. This process ensures internal and external parity. Increase recommendations for the Aveng executive committee members are proposed by the executive chairman and interim CEO and presented to the remcom for approval and implementation. As a general principle, the executive chairman and interim CEO's increase is approved by the lead independent director, following recommendation by the remcom. Employees have the option to elect to have 7% of their monthly salary deferred and paid as a lump sum in October each year. This salary structuring is referred to as elective annual savings (EAS).

Benefits

Medical aid cover

The Group facilitates the provision of medical aid for all employees and their families, and salaried employees are required to be members of the Company-nominated medical schemes unless they are already members of their spouse's medical aid schemes. Contributions are funded from the employees' TGP.

Retirement funding

Employees have the option to structure their pension and provident fund contributions and risk benefits at either 70%, 80% or 100% of their TGP. These contributions ensure that employees have appropriate savings for their retirement.

The rules of the pension and provident fund have been revised to take the Taxation Laws Amendment Act into account.

To encourage employees to save adequately for retirement, provision is now made in the rules to enable employees to make additional voluntary contributions. Members may contribute up to a maximum of 27,5% of remuneration earned.

Group life and insured benefits

These benefits provide insurance cover for employees and their dependants in the event of disability, death or critical illness.

- Group life assurance (death cover) – employees now have the flexibility to choose appropriate levels of death cover based on their personal and financial circumstances. Categories of death cover offered as a choice to all fund members are 2,5x, 3x, and 3,5x, 4 x or 4,5x annual pensionable salary
- Permanent health insurance (disability cover)
- Group personal accident cover (accidental death benefit cover).

Link between performance management system and variable remuneration: executive management and other staff eligible to participate

The usual "fit for purpose" STI schemes (e.g. production and sales bonuses) which are cash-based, performance-driven and self-funded, will form part of the remuneration policy for the 2019 financial year. The Group STI will be replaced by the 2019 Performance Incentive Plan described on the following pages. In addition, a new STI will be introduced for the other employees in the Group who are not eligible to participate in the 2019 Performance Incentive Plan.

Remuneration report continued

Key performance indicators, relevant to the specific business circumstances and strategy have been incorporated into the annual performance contract of the chief executive chairman and interim chief executive officer, who in turn cascades these measures into the performance contracts of the individual executive directors and managing directors.

Employees are assessed on a behavioural competency scale. The behavioural competencies identified for the employee are specific to their role and responsibility. On assessment, the employee is rated on a behavioural rating as depicted in the table below. These ratings influence salary adjustments and variable incentives (to the extent that these are in operation).

Exceeds expectation	All objectives were achieved consistent with the performance agreement and significantly greater than expected results against some. Behaviours were consistent with Aveng principles and values.
Good performance	All objectives were achieved or most achieved with greater than expected results. Behaviours were consistent with Aveng principles and values.
Improvement required	Not all objectives were achieved or behaviours were inconsistent with the Aveng principles and values.
Performance standards	Objectives were not achieved and / or behaviours were inconsistent with Aveng principles and values.

Variable remuneration schemes

The normal STI and LTI will be suspended for the 2019 financial year (no new awards under the 2015 LTIP and Special Incentive Scheme will be made), and the Performance Incentive Plan will be used. Below we provide detail on the 2015 LTIP and the Special Incentive Scheme to contextualise outstanding awards in terms of these plans.

Long-term Incentive (LTI)

Aveng 2015 LTI Plan

This plan was approved in 2015 and provides for awards in the form of bonus shares, performance shares and retention shares. More detail may be obtained in the 2017 remuneration report.

2018 Special Incentive Scheme

Aveng adopted the 2018 Special Incentive Scheme, to address specific business challenges present at that time, and to reset the performance conditions and address immediate and medium-term retention of executives and senior management. The awards under this scheme were split into three parts, 25% as a cash retention paid upfront subject to a clawback condition, 35% in retention shares for selected key executives and managers and 40% in performance shares subject to performance conditions. Following concerns raised by stakeholders regarding the performance conditions, Aveng amended one of the performance conditions from headline earnings to headline earnings per share.

2019 Performance Incentive Plan

2019 will be "business unusual". Following the strategic review to ensure that the Group realises a sustainable future, it was determined that there is a need for a tailored incentive plan for the various businesses. To align with the current strategy, the 2019 Performance Incentive Plan (the new plan) was designed and will be introduced for the 2019 financial year. The current STI and LTI plans will be suspended for the 2019 financial period.

Aveng proposes to introduce the new plan as follows:

1. Centre category – This component is aimed at key senior employees who are responsible for the strategic review. The objective of the component is to drive the successful execution of the transaction and the achievement of key operational measures. It will be measured over the 2019 financial year.
2. Core category – This component is aimed at selected mining employees from Moolmans and McConnell Dowell that will remain with the Group.
3. Non-core category – This component is aimed at employees who will remain until disposal of the non-core businesses.
4. Selected management and professionals will participate in a "fit for purpose" STI designed with specific targets.

	Centre	Core	Non-core
Eligibility	Aimed at a limited number of key and critical employees who will play vital roles in achieving the successful completion of the strategic review.		
Structure	Incentive = total guaranteed pay x on-target % x (operational score* x weighting + transactional score* x weighting + financial score* x weighting) ** As applicable, according to weightings below*		
Weighting	▸ Transactional: 50% ▸ Operational: 50%	▸ Financial: 70% ▸ Operational: 30%	▸ Financial: 50% ▸ Transactional: 50%
On-target %	Executive directors and prescribed officers: 120% Other employees: 75% McConnell Dowell plans will continue as is, with on-target percentages ranging from 40% to 70% of total fixed remuneration.		

Performance measures

The following performance measures are applicable to the executive chairman and interim CEO for the centre category.

Area	Measure	Criteria
Transactions (60%)	Capital market transaction	Complete rights issues and bond conversion
	Renewal of common terms agreement (CTA) bank agreements	Signed agreements with lender group
	Disposal of non-core interests ▸ Aveng Grinaker-LTA ▸ Aveng Trident Steel ▸ Aveng Manufacturing	Conclude sale and purchase agreements
Operational (40%)	CTA covenants	Compliance or waiver
	Succession	Appointment of CEO
	Safety	Zero fatalities and a lost-time injury frequency rate of 0,20
	Retention of key staff	As per the list of key individuals

Performance measures

The following performance measures are applicable to the CFO for the centre category.

Area	Measure	Criteria
Transactions (50%)	Capital market transaction	Complete rights issues and bond conversion
	Renewal of (CTA) bank agreements	Signed agreements with lender group
	Disposal of non-core interests ▸ Aveng Grinaker-LTA ▸ Aveng Trident Steel ▸ Aveng Manufacturing	Conclude sale and purchase agreements
Operational (50%)	CTA covenants	Compliance or waiver
	Quality of audit opinion	Unqualified audit opinion
	Safety	Zero fatalities and a lost-time injury frequency rate of 0,20
	Retention of key staff	As per the list of key individuals

Remuneration report continued

	Centre	Core	Non-core
Performance measures (continued)	Other prescribed officers in this category will have similar measures with some modification to reflect each participant's unique role. The following performance measures are applicable to the core category (specifically participants from McConnell Dowell):		

Core category (McConell Dowell)	Performance measures	Targets
Financial (70%)	EBIT OFCF New work	Budget Budget Budget
Operational (30%)	Lead safety indicator Lag safety indicator Customer satisfaction	Budget Budget Executive chairman and interim CEO survey

The following performance measures are applicable to the core category (specifically participants from Moolmans):

Core category (Moolmans)	Performance measures	Targets
Financial (70%)	EBIT OFCF New work	Budget Budget Budget
Sustainability (30%)	Retention / succession Safety Transformation	As per select list of employees LTIFR of 0,2 and zero fatalities Level 2

The following performance measures are applicable to the non-core category:

Non-core category	Performance measures	Targets
Financial (50%)	EBIT OFCF	Budget Budget
Transactional (50%)	Disposal proceeds CPs met and no post-sale adjustments Safety	As per select list of employees Unconditional sale with no warranty claims As per executive chairman and interim CEO targets

- The targets depicted above, are general metrics which will be tailormade for each participant
- The actual targets have not been provided as they are linked to budget and considered commercially sensitive information but performance against the targets will be provided ex post.

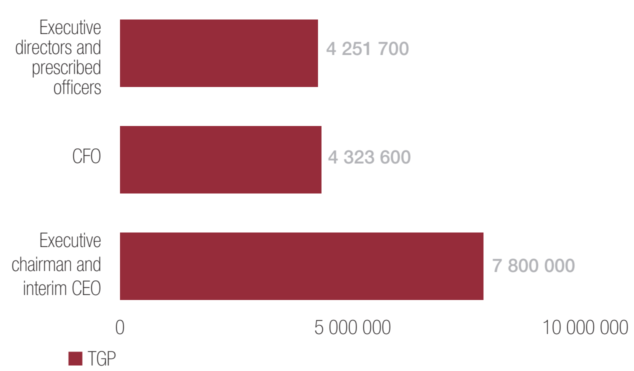
	Centre	Core	Non-core
Performance measures and targets	For each performance measure a threshold, target and stretch performance level will be set: ▸ Performance at threshold, target or stretch will result in a 50%, 100% or 150% score, respectively ▸ For performance above stretch, the score will be capped at 150% ▸ Linear interpolation will be applied between levels.		
Term and payment	Performance will be assessed on a milestone basis (each measure / milestone has a weighting attached thereto), and payments will be made in cash as soon as possible after the achievement of each milestone.	Moolmans and McConnell Dowell performance will be measured over the 2019 financial year and participants will receive cash payments upon the verification of audited financial results.	Performance will be measured from 1 July 2018 until the successful completion of the transactional measure / milestones. Participants will receive cash payments upon the verification of audited financial results.

Termination of employment	Good leavers: Where employment is terminated by reason of death, retrenchment, ill-health, injury, disability, retirement or sale of an employer company or business, the participant will be classified as a good leaver. remcom has discretion to make payment of all / proportionate amount to the extent that performance targets have been met. Bad leavers: Where employment is terminated by reason of resignation, dismissal for disciplinary reasons or for any reason other than a good leaver, the participant will be classified as bad leaver and will forfeit their right to participate in the incentive.
Settlement condition	Before any payment in terms of the plan, the remcom, in consultation with the Board if deemed necessary, will assess whether the Company is in a position to pay these incentives from a cash flow position.
Malus	Malus provisions will be applicable, under the following circumstances: ▸ in the event that a material misstatement of the financial statements of Aveng / operating groups / business units is detected; ▸ in the event of subsequent poor project or financial performance; ▸ in the event of significant adverse legal / Competition Act findings against Aveng in which the individual had some culpability; and ▸ in the event of a disciplinary finding against the individual.

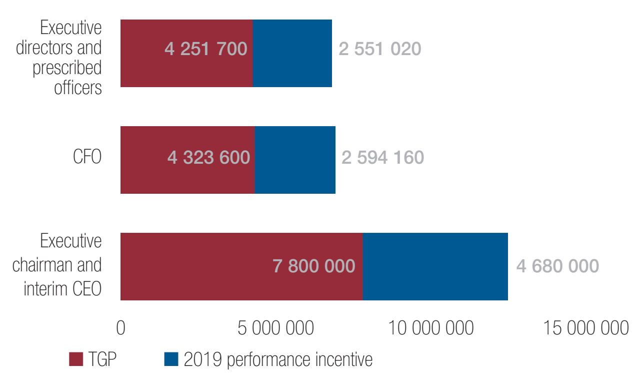
2019 Performance Incentive Plan – executive earning potential

Executive earning potential for variable pay as a total of the "on-target" remuneration for the executive chairman / interim CEO, CFO, executive directors and prescribed officers is depicted in the graphs below:

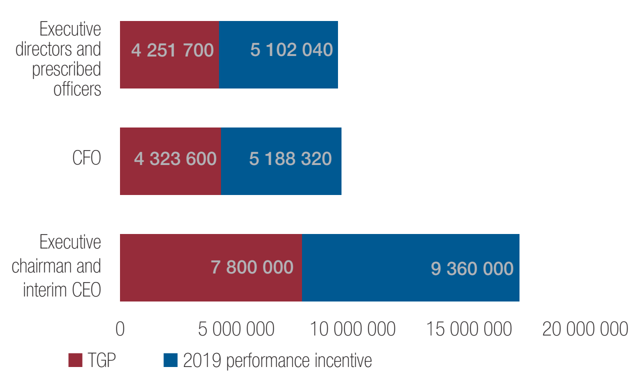
Below threshold



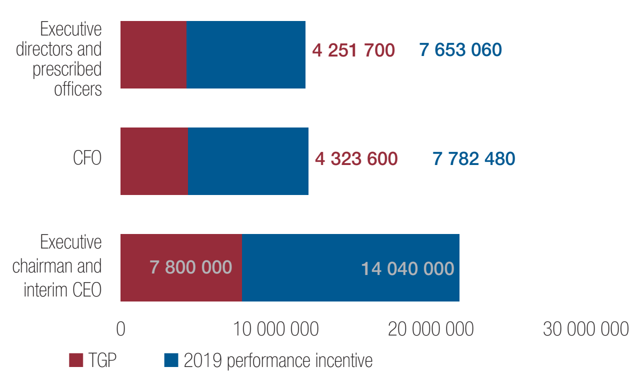
Threshold



Target



Stretch



Remuneration report continued

Policy on terms of service on employment contracts and severance arrangements

Executive management

Notice periods: The termination condition of executives and prescribed officers is three months' notice, with the remainder of the Group set between one and three months' notice depending on the seniority and criticality of the role.

The Group's current normal retirement age is 60 years, excluding McConnell Dowell employees (for whom no retirement age is prescribed by Australian labour legislation). However, Aveng has a policy in place to extend employment for selected individuals with critical or scarce skills beyond the normal retirement age on the same terms and conditions. Such extension is at the sole discretion of the Company.

Although not a requirement of King IV Aveng executive directors have historically retired by rotation every three years and presented themselves for re-election at the Group's annual general meeting (AGM). This practice shall continue.

While no specific provision is made for termination bonuses, the committee is given some discretion by the various incentive scheme rules to consider these in the case of terminations under exceptional circumstances.

The table below summarises the various termination reasons and the impact on the executive management's variable remuneration elements:

Plan	Bad leavers – resignation, abscondment, early retirement, dismissal	Good leavers – retrenchment, retirement, restructuring, disability, death
2018 Special Incentive cash-settled retention awards	Future payments are forfeited and the executive must pay back either full or a pro rated amount of the net value of the award already received.	Future payments are forfeited and executive is not required to reimburse the Company for any awards already received.
Cash-settled conditional share plan (CSP)	All unvested conditional awards will lapse, unless the remcom in its absolute discretion determines otherwise.	A portion (performance adjusted) of the unvested conditional awards will vest on the date of termination.
Aveng 2015 LTIP	All unvested awards shall be forfeited in their entirety and will lapse immediately on the date of termination.	In respect of bonus shares and retention shares, a pro rata portion of the award shall vest. In respect of performance shares, the portion of the award that will vest shall be determined to the extent that the performance conditions were met.
Proposed 2019 Performance Incentive Plan	All unvested awards shall be forfeited in their entirety and will lapse immediately on the date of termination.	The remcom has discretion to a make payment of a proportionate amount based on the extent to which performance measures have been met.

Minimum shareholding requirement (MSR)

The MSR policy sets out minimum shareholdings which executives and other selected senior employees are required to achieve. The long-term objective and intention of the MSR policy is to limit the offloading of vested (equity-settled) awards, and encourage senior employees to maintain a meaningful ownership stake within the Company, representing their commitment to the creation of shareholder value, and demonstrating their faith in the business.

Employees may build up the shareholding from their own funds. To this end, employees are given the opportunity to defer the tax vesting of awards vesting under the long-term incentive plans.

The target shareholdings to be realised, since the approval of the MSR policy are:

- CEO: 100% of guaranteed package
- Executive directors and prescribed officers: 50% of guaranteed package.

The following will be counted towards the satisfaction of the MSR:

- JSE shares purchased on the market, either directly or indirectly, from personal funds
- Vested shares from any short-term or long-term incentive operated by the Company.

These target minimum shareholding requirements are subject to annual review by the remcom. As there has been no equity settlement of awards for at least the last five years, the executives have not been in a position to invest in the Company.

Non-executive directors

Policy

Non-executive directors are appointed by the shareholders at the AGM. Where a non-executive director holds office for longer than nine years, the independence of that director will be subjected to a review by the Board and a statement to that effect will be included in the integrated report. The committee shall consider the continuation (or not) in service of any non-executive director who has reached the age of 65. Non-executive directors must retire from the Board by the age of 70. Notwithstanding this provision, non-executive directors are also subject to the retirement by rotation process as provided for in the memorandum of incorporation.

Fee structure

Non-executive directors who sit on the Board and all committees are paid on a retainer basis subject to attendance at scheduled Board / committee meetings. For the Board, there is an additional fee paid per meetings in excess of the five scheduled meetings per year. There is also a fee paid per hour for non-executive directors for extraordinary services rendered which may not exceed eight hours a day and an approved McConnell Dowell travel allowance. A composite fee is paid to non-executive directors based overseas, which is exclusive of VAT.

Fee approval

Management submits annually, to the remcom, a proposal for the review of non-executive director fees. This proposal includes benchmarks from a minimum of two non-executive director remuneration surveys, as well as extracts and benchmarking data from annual reports of at least five medium businesses within the same industry sector. A comparison of the current and proposed fees against the market surveys and benchmarks informs the appropriate fee recommended by management. The services of independent remuneration consultants may also be used to obtain independent benchmarks for non-executive directors' fees. While market benchmarks provide an indication of competitiveness of non-executive director fees, Company performance and affordability ultimately influences fee increases.

This recommended fee, upon review by the Board, is submitted to the AGM for approval by shareholders in terms of the Companies Act. The non-executive director fees proposed exclude VAT which will be charged by a qualifying non-executive director at the prevailing rate. Fees payable for five scheduled Board meetings per annum will be in proportion to the period during which the office of the non-executive director, chairman or lead independent director as the case may be, has been held during the year. In addition, no increase in the fees for non-executive directors has been recommended for both the 2018 and 2019 financial years.

Remuneration report continued

Board / committee	Category	2018 fee (R)	2019 proposed increase (%)	2019 proposed fee* (R)
Main Board	Chairperson	**976 000**	–	976 000
	Lead independent director	**450 000**		450 000
	Director	**321 400**	–	321 400
	Ad hoc meetings**	**28 200**	–	28 200
Subsidiary boards	Director	**170 800**	–	170 800
	McConnell Dowell travel allowances****	**78 000**	–	78 000
Remuneration and nomination committee	Chairperson	**216 600**	–	216 600
	Member	**86 100**	–	86 100
Safety, health and environmental committee	Chairperson	**187 000**	–	187 000
	Member	**80 800**	–	80 800
Social, ethics and transformation committee	Chairperson	**187 000**	–	187 000
	Member	**80 800**	–	80 800
Risk committee***	Chairperson	**216 600**	–	–
	Member	**86 100**	–	–
Audit committee***	Chairperson	**286 400**	–	–
	Member	**161 200**	–	–
	Subsidiaries member	**87 300**	–	–
Audit and risk committee***	Chairperson	**–**	–	286 400
	Member	**–**	–	161 200
	Subsidiaries member	**–**	–	87 300
Investment committee	Chairperson****	**11 400**	–	11 400
	Member****	**8 700**	–	8 700
Tender risk committee	Member****	**11 200**	–	11 200
Ad hoc committee meetings	Member / invitee*****	**18 300**	–	18 300
Extraordinary services rendered	Per hour fee******	**4 500**	–	4 500

* *The proposed fees exclude VAT which will be charged by any qualifying non-executive director, at the prevailing rate.*
** *Per meeting attended in excess of the five scheduled meetings per year.*
*** *The audit committee and the risk committee have been combined as the audit and risk committee from 21 February 2018.*
**** *Per meeting attended.*
***** *Directors who are not members of a board committee are sometimes requested on an ad hoc basis to attend meetings of certain committees. The proposed fee structure as set out above includes a fee payable under these circumstances. The meeting attendance fee to directors who are not members of the relevant committee will only be paid if attendance is based on a formal invitation from the committee chairperson.*
****** *Per hour.*

Fee type	2018 fee (£)	2019 proposed increase (%)	2019 proposed fee* (£)
Composite fee**	**81 250**	–	81 250
Ad hoc meeting fee***	**2 550**	–	2 550

* *The proposed fees exclude VAT which will be charged by any qualifying non-executive director, at the prevailing rate.*
** *Fee paid for attendance at Aveng Board meetings, attendance as chairman of audit and risk committee and as a member of three other board committees (being the SET, remuneration and nomination and investment committees).*
*** *Fee paid for any additional ad hoc board or committee meetings attended.*

Voting statement (Non-binding advisory vote on the remuneration policy)

This remuneration policy is subject to an advisory vote by shareholders at the 2018 AGM.

Shareholders are requested to cast a non-binding advisory vote on part 2 of this remuneration report, as it appears above.

Part 3: Implementation of remuneration policies during the 2018 financial year

Salary adjustments

Due to the prevailing tough business climate, the operating groups limited annual increases to below the mandated increases as they have for the previous five years. Despite these reduced overall annual increases, our annual market benchmarking results indicate that we remain generally on par with the market. Executive directors and prescribed officers were awarded performance-based increases, meaning that where individual performance was below target no increase was awarded. Market benchmarking was taken into consideration for each individual's remuneration.

	Average increase percentage
Executive directors / Prescribed officers	**4,25**
General staff*	**3,70**

** The average is only applicable to eligible employees of those operating groups which awarded increases in line with profitability, affordability and sustainability considerations.*

Performance measurement

The Group's performance management process measures the relative level of performance of both businesses and individuals. One of the key considerations to be taken into account when an employee's salary is being reviewed, is their performance rating. This rating is a factor considered when determining both annual salary increases and incentive awards.

STI outcomes

With the exception of the executive chairman and interim CEO, there will be no STI payments to executive directors and prescribed officers for the 2018 period as performance targets were not met across the Group.

Long-term incentives

Discontinued schemes: Share Appreciation Rights (SARs) Scheme and Forfeitable Share Plan (FSP).

The SARs and FSP performance conditions are independently tested on an annual basis to determine the extent of vesting.

The table below shows the vesting for the awards between 2014 and 2015:

	2013 %	2014 %	2015[1] %
SARS	–	–	n / a
FSP	–	–	–

[1] If the current position is maintained at the end of the performance period, the percentage indicated will vest.

SARs scheme

This scheme was discontinued in 2015, no further SARs were granted.

SARs	Number of appointment awards	Number of annual awards	Total awards	SARs issued	Total number of SARs issued to date	Forfeited to date	Vested to date
2012	12	307	319	6 360 875	6 360 875		
2013	11	248	259	6 055 062	12 415 937		
2014	2	260	262	6 233 008	18 648 945		
2015	1	239	240	6 890 600	25 539 545		
2016	–	–	–	–	25 539 545		
2017	–	–	–	–	25 539 545		
2018	**–**	**–**	**–**	**–**	**25 539 545**	**(25 539 545)**	**–**

Vesting of SARs is subject to the meeting of a performance condition.

The last SARs were granted in November 2014. The performance condition for these awards were tested in June 2017. As indicated in the "achievement of performance conditions" table, it is improbable that the performance condition is going to be met. As such, these awards will automatically be forfeited.

Refer to the dealings in securities by directors SENS announcement on the 3rd July 2018 for any changes to directors interests.

Remuneration report continued

FSP

As this scheme was discontinued in 2015, no forfeitable shares were granted in 2018.

FSP	Number of awards	FS issued	Total number of FS issued to date	Forfeited to date	Vested to date
2012	9	990 108	990 108		
2013	4	352 200	1 342 308		
2014	6	502 891	1 845 199		
2015	6	502 262	2 347 461		
2016	21	4 294 700	6 642 161		
2017			6 642 161		
2018	**–**	**6 642 161**	**6 642 161**	**(3 270 917)**	**(1 106 045)**

Vesting of forfeitable shares is subject to the meeting of a performance condition.

The last FSP shares were granted in September 2015. These awards are due to vest in September 2018 and are subject to the fulfilment of the performance condition, which will be tested after year end.

Cash-settled Conditional Share Plan (CSP)

The CSP was implemented as a result of Aveng having been in an extended cautionary period since December 2015. Awards are made in the form of performance, retention and bonus shares which are cash settled upon vesting. No awards were made under this plan during the 2018 financial year.

CSP	Number of bonus awards[1]	Number of perfor-mance awards[2]	Number of retention awards[3]	Total awards	CSP issued	Total number of CSP issued to date	Forfeited to date	Vested to date
2017	7	37	4	48	10 149 930	10 149 930	–	–
2018	**–**	**–**	**–**	**–**	**–**	**10 149 930**	**(2 596 492)**	**(2 024 782)**

[1] The bonus awards are from the deferred portion of 2016 financial year STI award.

[2] Performance awards are subject to an employment and performance conditions. The performance condition for the 2017 award is Aveng's growth in headline earnings per share (HEPS) relative to the JSE Construction Index J235 (excluding PPC Ltd), as per the approved 2016 remuneration policy. No vesting will occur for performance below threshold and linear vesting will be applied between the threshold and target. A maximum of 100% of the award will vest.

[3] Retention awards are subject to an employment condition of three years.

Long-term Incentive Plan

In line with the approved remuneration policy, for the 2018 financial period, the bonus shares awarded under the LTIP formed part of the 2017 financial year STI awards. Retention awards and performance awards were made under the 2018 Special Incentive.

LTIP	Number of bonus awards[1]	Number of perfor-mance awards[2]	Number of retention awards[3]	Total awards	LTIP issued	Total number of LTIP issued to date	Forfeited to date	Vested to date
2018	**3**	**14**	**14**	**31**	**–**	**10 254 910**	**–**	**–**

[1] These bonus awards are from the deferred portion of 2017 financial year STI award.

[2] Performance awards which are subject to employment and performance conditions were awarded under the 2018 Special Incentive Award. The performance conditions for the 2018 awards are headline earnings per share, execution of strategic plan, net cash flow and secured order book against plan. No vesting will occur for performance below threshold and linear vesting will be applied between the threshold and target. A maximum of 100% of the award will vest.

[3] Retention awards which are subject to an employment condition of three years were awarded under the 2018 Special Incentive Award.

2018 Special incentive

Awards under this scheme were made to selected key executives, prescribed officers and managers in December 2017. Awards were split into three parts:

- 25% as a cash retention paid upfront subject to a condition that the amounts may be clawed back on a pro rata basis if employment is terminated by virtue of a fault termination before three years from the date of award
- 35% as retention shares, subject to remaining employed for a three year employment period
- 40% in performance shares subject to performance conditions: Headline earnings per share, execution of strategic plan, net cash flow and secured order book against plan; as well as the employment condition, measured over three years.

The awards made under the 2018 Special Incentive in December 2018 are expressed as a percentage of guaranteed pay in the table below:

Director	Position	LTIP as a % of guaranteed package (face value)	LTIP as a % of guaranteed package (expected value)
AH Macartney	Chief financial officer	85	67
JJA Mashaba	Group executive director	85	67
SPF White	Prescribed officer	85	67
BKN Mdlalose	Prescribed officer	57	45

The cash value and number of awards made to selected executive directors and prescribed officers under the 2018 Special Incentive in December 2018 are depicted in the table below:

Director	Position	Cash value (25%) (R)	Retention shares (40%)	Performance shares (35%)
AH Macartney	Chief financial officer	658 359	441 006	840 011
JJA Mashaba	Group executive director	671 843	450 038	857 215
SPF White	Prescribed officer	636 500	426 364	812 121
BKN Mdlalose	Prescribed officer	270 000	180 861	344 498

Due to the Company's financial performance in 2018, none of the performance conditions set for the performance shares awarded under the LTIP will be met.

2018 bonus shares

The following bonus shares were awarded during 2018 based on the bonus earned for the year ended 30 June 2017.

Director	Position	Bonus shares
AH Macartney	Chief financial officer	126 373
JJA Mashaba	Group executive director	125 895
SPF White	Prescribed officers	313 780
BKN Mdlalose	Prescribed officer	–

No bonus shares will be awarded in 2019 as no bonuses were earned for 2018.

Single figure of remuneration

The total remuneration and detail on outstanding and settled long-term incentives for executive directors and prescribed officers for 2018 is reflected in the following tables. This disclosure is aligned to the King IV recommended total single figure disclosures of remuneration.

Remuneration report continued

Executive directors and prescribed officers

		Year	Salary [1] R'000	Retirement fund [2] R'000	Statutory Termination Payments [3] R'000	Other payments [4] R'000
Executive directors						
EK Diack	11	**2018**	**6 698**			
		2017				
HJ Verster	12	**2018**	**1 537**	**66**	**2 709**	**5 660**
		2017	6 003	258		
JJA Mashaba		**2018**	**4 044**	**198**		
		2017	3 838	188		
AH Macartney		**2018**	**3 929**	**198**		
		2017	3 699	232		
Prescribed officers						
LS Letsoalo	13	**2018**	**1 237**	**119**	**182**	
		2017	3 162	238		
HA Aucamp		**2018**	**3 373**	**170**		
		2017	3 308	167		
SPF White		**2018**	**3 622**	**275**		
		2017	3 335	252		
BKN Mdlalose	14	**2018**	**738**	**32**		
		2017				
CDW Botha	15	**2018**	**1 139**	**47**	**175**	**1 169**
		2017	3 410	181		
S Cummins (Aus)	16	**2018**	**1 084**	**157**		
		2017	1 064	154		

[1] *Salary for South African directors and prescribed officers is total fixed earnings inclusive of contributions towards medical aid, administration and risk benefit expenses, accident cover and vehicle benefits, all of which is funded from the Total Guaranteed Package (TGP).*

[2] *Retirement fund contributions are also funded from the TGP.*

[3] *Statutory termination payments include leave pay and notice pay where applicable.*

[4] *Other payments relating to termination.*

[5] *In the 2017 / 2018 financial year the performance targets were not met, therefore there will be no STI payments. STI reflected for 2017 financial year is based on performance in 2017. The Aveng remuneration and nomination committee exercised its discretion to defer the award of STI bonuses for the 2017 financial year which were paid out following the publication of the 2017 remuneration report.*

[6] *The 2018 Performance Incentive paid to EK Diack in terms of contracted specific performance outcomes*

[7] *2018 amounts reflect cash retention payments made in relation to 2018 Special Incentive Award – refer to part 3 of the remuneration report. The award is subject to a lock-in period of three years with a pro rata portion of the award payable back to the Group in the event of resignation or dismissal by the Group for poor performance or misconduct, within the three-year period. 2017 amount for AH Macartney reflects the cash retention payment which was deferred to September 2016 to coincide with his appointment anniversary date (this award was made to other executives in the 2016 financial year). The award is subject to a lock-in period of three years with the full value of the award payable back to the Group in the event of resignation or dismissal by the Group for poor performance or misconduct, within the three-year period.*

[8] *Participants in both the FSP and the LTIP received rights in relation to the holding of forfeitable shares as part of the rights offer in 2018. The figure shown includes proceeds from rights sold and estimated proceeds from rights followed in relation to performance shares.*

[9] *For the 2017 financial year, the LTIP reflected includes the CSP retention awards made on 19 September 2016 at the award date value and the LTIP bonus shares linked to the 2017 STI at the value of the bonus matched. The Share Appreciation Rights awards made on 25 February 2014, 27 August 2014 and 9 September 2014 with a performance period ending 30 June 2017 were considered, however due to the unlikelihood of the performance condition being met as at 30 June 2017 and the awards being underwater, no value was included. It was subsequently confirmed that the performance conditions were not met.*

[10] *For the 2018 financial year, the LTIP reflected includes the 2018 Special Incentive Award Retention Shares at the award date value. The performance shares awarded under the FSP on 1 September 2015 with a performance period ending 30 June 2018 is not likely to meet its performance conditions and therefore not included in this value.*

[11] *EK Diack Appointed as executive chairman and interim CEO on 23 August 2017.*

[12] *HJ Verster resigned 22 September 2017 and his exit arrangements were agreed and included in a settlement agreement signed by the parties at that time. Included in the agreement is a provision for a clawback. The agreement is subject to a dispute between the parties. Therefore the amounts included in the remuneration report and already paid out cannot be regarded as final.*

[13] *LS Letsoalo resigned 31 October 2017.*

[14] *BKN Mdlalose appointed as Grinaker-LTA managing director on 12 March 2018. Amount reflected for the period 12 March to 30 June 2018.*

[15] *CDW Botha terminated 30 September 2017.*

[16] *S Cummins earnings disclosed in AUD'000. Salary amount includes vehicle benefits allowance.*

Short-term incentive (STI) [5] R'000	Performance incentive [6] R'000	Cash retention payment [7] R'000	Rights offer benefits [8] R'000	Long-term incentives reflected [9, 10] R'000	Total single figure of remuneration R'000
	4 204				**10 902**
					–
					9 972
1 292				5 019	12 572
		672	**2 066**	**941**	**7 921**
395				263	4 684
		658	**2 068**	**922**	**7 775**
396		1 500		264	6 091
					1 538
					3 400
	100		**461**		**4 104**
	1 500				4 975
		637	**298**	**891**	**5 723**
984				656	5 227
		270	**4**	**378**	**1 422**
					–
					2 530
					3 591
					1 241
144					1 362

Remuneration report continued

Names		Lasting vesting date	Grant price (R)	Opening number on 1 July 2016	Granted during 2017	Forfeited during 2017	Vested / exercised during 2017	Closing number on 30 June 2017
Executive directors								
HJ Verster[5]								
Option plan	Sep 2010	Sep 2016	37,70	264 987	–	–	–	264 987
Share Appreciation Rights Plan	Dec 2011	Dec 2016	33,75	111 000	–	(111 000)	–	–
	Oct 2012	Oct 2017	30,90	126 800	–	(126 800)	–	–
	Sep 2013	Sep 2018	25,00	163 500	–	(163 500)	–	–
	Aug 2014	Aug 2019	23,94	216 800	–	–	–	216 800
	Mar 2014	Mar 2017		232 019	–	(232 019)	–	–
FSP – with performance conditions	Sep 2015	Sep 2018		768 400	–	–	–	768 400
Cash CSP: bonus shares	Aug 2016	Aug 2019		–	99 930	–	–	99 930
Cash CSP: performance shares	Sep 2016	Sep 2019		–	902 778	–	–	902 778
Cash CSP: retention shares	Sep 2016	Sep 2019		–	1 805 555	–	–	1 805 555
Total								
JJA Mashaba								
Option plan	Oct 2007	Oct 2013	54,84	155 000	–	–	–	155 000
	Oct 2008	Oct 2014	42,80	159 264	–	–	–	159 264
	Sep 2009	Sep 2015	40,30	69 258	–	–	–	69 258
	Sep 2010	Sep 2016	37,70	73 944	–	–	–	73 944
Share Appreciation Rights Plan	Dec 2011	Dec 2016	33,75	90 000	–	(90 000)	–	–
	Oct 2012	Oct 2017	30,90	100 900	–	(100 900)	–	–
	Sep 2013	Sep 2018	25,00	160 400	–	(160 400)	–	–
	Aug 2014	Aug 2019	23,94	190 700	–	–	–	190 700
FSP – with performance conditions	Aug 2014	Aug 2017		143 367	–	–	–	143 367
	Sep 2015	Sep 2018		372 800	–	–	–	372 800
Cash CSP: bonus shares	Aug 2016	Aug 2019		–	52 632	–	–	52 632
Cash CSP: performance shares	Sep 2016	Sep 2019		–	1 000 000	–	–	1 000 000
LTIP: bonus shares	Dec 2017	Dec 2020		–	–	–	–	–
LTIP: performance shares (2018 Special Incentive Award)	Dec 2017	Dec 2020		–	–	–	–	–
LTIP: retention shares (2018 Special Incentive Award)	Dec 2017	Dec 2020		–	–	–	–	–
Total								
AH Macartney								
Share Appreciation Rights Plan	Sep 2014	Sep 2019	22,63	243 040	–	–	–	243 040
FSP – with performance conditions	Sep 2014	Sep 2017		44 189	–	–	–	44 189
	Sep 2015	Sep 2018		391 000	–	–	–	391 000
Cash CSP: bonus shares	Aug 2016	Aug 2019		–	49 123	–	–	49 123

Value of receipts 2017[1] (R)	Estimated closing fair value on 30 June 2017[3] (R)	Granted during 2018	Forfeited / renounced during 2018[4]	**Vested / exercised during 2018**	**Closing number on 30 June 2018**	**Value of receipts 2018[1, 2] (R)**	**Estimated closing fair value on 30 June 2018[3] (R)**
–	–	–	(264 987)	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**–**	**–**	**–**
–	–	–	(216 800)	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**–**	**–**	**–**
–	–	–	(768 400)	**–**	**–**	**–**	**–**
–	557 609	–	–	**(99 930)**	**–**	**363 079**	**–**
–	–	–	(902 778)	**–**	**–**	**–**	**–**
–	10 074 997	–	–	**(1 805 555)**	**–**	**2 106 481**	**–**
–	10 632 606	–				**2 469 560**	**–**
–	–	–	(155 000)	**–**	**–**	**–**	**–**
–	–	–	(159 264)	**–**	**–**	**–**	**–**
–	–	–	(69 258)	**–**	**–**	**–**	**–**
–	–	–	(73 944)	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**–**	**–**	**–**
–	–	–	(190 700)	**–**	**–**	**–**	**–**
–	–	–	(143 367)	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**372 800**	**626 298**	**–**
–	293 687	–	–	**(17 544)**	**35 088**	**68 422**	**5 614**
–	–	–	–	**–**	**1 000 000**	**–**	**–**
–	–	125 895	–	**–**	**125 895**	**211 501**	**20 143**
–	–	857 215	–	**–**	**857 215**	**1 440 106**	**–**
–	–	450 038	–	**–**	**450 038**	**756 056**	**72 006**
–	293 687					**3 102 382**	**97 763**
–	–	–	(243 040)	**–**	**–**	**–**	**–**
–	–	–	(44 189)	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**391 000**	**656 873**	**–**
–	274 106	–	–	**(16 374)**	**32 749**	**63 859**	**5 240**

Remuneration report continued

Names		Lasting vesting date	Grant price (R)	Opening number on 1 July 2016	Granted during 2017	Forfeited during 2017	Vested / exercised during 2017	Closing number on 30 June 2017
Cash CSP: performance shares	Sep 2016	Sep 2019		–	400 000	–	–	400 000
LTIP: bonus shares	Dec 2017	Dec 2020		–	–	–	–	–
LTIP: performance shares (2018 Special Incentive Award)	Dec 2017	Dec 2020		–	–	–	–	–
LTIP: retention shares (2018 Special Incentive Award)	Dec 2017	Dec 2020		–	–	–	–	–
Total							–	
Prescribed officers								
LS Letsoalo[6]								
Option plan	Sep 2010	Sep 2016	37,70	66 313	–	–	–	66 313
Share Appreciation Rights Plan	Dec 2011	Dec 2016	33,75	102 000	–	(102 000)	–	–
	Oct 2012	Oct 2017	30,90	114 800	–	(114 800)	–	–
	Sep 2013	Sep 2018	25,00	73 000	–	(73 000)	–	–
	Aug 2014	Aug 2019	23,94	125 900	–	–	–	125 900
FSP – with performance conditions	Sep 2015	Sep 2018		348 400	–	–	–	348 400
Cash CSP: performance shares	Sep 2016	Sep 2019		–	500 000	–	–	500 000
Total							–	
HA Aucamp								
Option plan	May 2011	May 2017	22,63	226 263	–	–	–	226 263
Share Appreciation Rights Plan	Oct 2012	Oct 2017	30,90	95 800	–	(95 800)	–	–
	Sep 2013	Sep 2018	25,00	121 900	–	(121 900)	–	–
	Aug 2014	Aug 2019	23,94	164 400	–	–	–	164 400
FSP – with performance conditions	Sep 2015	Sep 2018		349 000	–	–	–	349 000
Cash CSP: bonus shares	Aug 2016	Aug 2019		–	56 140	–	–	56 140
Cash CSP: performance shares	Sep 2016	Sep 2019		–	500 000	–	–	500 000
Total							–	
SPF White								
Option plan	Sep 2010	Sep 2016	37,70	37 183	–	–	–	37 183
Share Appreciation Rights Plan	Dec 2011	Dec 2016	33,75	40 000	–	(40 000)	–	–
	Oct 2012	Oct 2017	30,90	53 500	–	(53 500)	–	–
	Sep 2013	Sep 2018	25,00	87 200	–	(87 200)	–	–
	Aug 2014	Aug 2019	23,94	98 100	–	–	–	98 100
FSP – with performance conditions	Aug 2014	Aug 2017		101 236	–	–	–	101 236
	Sep 2015	Sep 2018		317 400	–	–	–	317 400
Cash CSP: bonus shares	Aug 2016	Aug 2019		–	35 088	–	–	35 088
Cash CSP: performance shares	Sep 2016	Sep 2019		–	500 000	–	–	500 000
LTIP: bonus shares	Dec 2017	Dec 2020		–	–	–	–	–

Value of receipts 2017[1] (R)	Estimated closing fair value on 30 June 2017[3] (R)	Granted during 2018	Forfeited / renounced during 2018[4]	**Vested / exercised during 2018**	**Closing number on 30 June 2018**	**Value of receipts 2018[1, 2] (R)**	**Estimated closing fair value on 30 June 2018[3] (R)**
–	–	–	–	**–**	**400 000**	**–**	**–**
–	–	126 373	–	**–**	**126 373**	**212 304**	**20 220**
–	–	840 011	–	**–**	**840 011**	**1 411 204**	**–**
–	–	441 006	–	**–**	**441 006**	**740 882**	**70 561**
–	274 106			**–**		**3 085 122**	**96 020**
–	–	–	(66 313)	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**–**	**–**	**–**
–	–	–	(125 900)	**–**	**–**	**–**	**–**
–	–	–	(348 400)	**–**	**–**	**–**	**–**
–	–	–	(500 000)	**–**	**–**	**–**	**–**
–	–	–		**–**	**–**	**–**	**–**
–	–	–	(226 263)	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**–**	**–**	**–**
–	–	–	(164 400)	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**349 000**	**460 675**	**–**
–	313 261	–	–	**(18 713)**	**37 427**	**72 981**	**5 988**
–	–	–	–	**–**	**500 000**	**–**	**–**
–	313 261					**533 656**	**5 988**
–							
–	–	–	(37 183)	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**–**	**–**	**–**
–	–	–	(98 100)	**–**	**–**	**–**	**–**
–	–	–	(101 236)	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**317 400**	**83 793**	**–**
–	195 791	–	–	**(11 696)**	**23 392**	**45 614**	**3 743**
–	–	–	–	**–**	**500 000**	**–**	**–**
–	–	313 780	–	**–**	**313 780**	**82 837**	**50 205**

Remuneration report continued

Names		Lasting vesting date	Grant price (R)	Opening number on 1 July 2016	Granted during 2017	Forfeited during 2017	Vested / exercised during 2017	Closing number on 30 June 2017
LTIP: performance shares (2018 Special Incentive Award)	Dec 2017	Dec 2020		–	–	–	–	–
LTIP: retention shares (2018 Special Incentive Award)	Dec 2017	Dec 2020		–	–	–	–	–
Total								
BKN Mdlalose								
Share Appreciation Rights Plan	Dec 2011	Dec 2016	33,75	11 000	–	(11 000)	–	–
LTIP: performance shares (2018 Special Incentive Award)	Dec 2017	Dec 2020		–	–	–	–	–
LTIP: retention shares (2018 Special Incentive Award)	Dec 2017	Dec 2020		–	–	–	–	–
Total								
CDW Botha[7]								
Share Appreciation Rights Plan	Feb 2014	Feb 2019	21,80	90 000	–	(90 000)		–
FSP – with performance conditions	Feb 2014	Feb 2017		45 872	–	(45 872)	–	–
	Sep 2015	Sep 2018		349 200	–	–	–	349 200
Cash CSP: bonus shares	Aug 2016	Aug 2019		–	45 614	–	–	45 614
Total								
S Cummins (Aus) Disclosed in Australian Dollars (AUD)								
Appointment award (Cash)[8]	Jul 2015	Jul 2018	–	1 200 000	–	–	(400 000)	800 000
Total								

[1] *Value of receipts includes the cash equivalent of shares vested during the year.*

[2] *Participants in both the FSP and LTIP received rights in relation to the holding of forfeitable shares as part of the rights offer in 2018. The figure shown in the value of receipts for 2018 includes proceeds from rights sold and estimated proceeds from rights followed in relation to performance shares, bonus shares and retention shares.*

[3] *The fair value of all SARs were shown as zero as these awards are all underwater and performance conditions are not likely to be met / have not been met. The fair value of Bonus Shares and Retention Shares were shown using the 10-day VWAP as at each year end. The fair value of all performance shares are shown as zero as the performance conditions linked to these awards are unlikely to be met / have not been met.*

[4] *Share options: As these options are deeply underwater, the Company, with mutual consent from participants, cancelled all outstanding options. Share Appreciation Rights: The performance condition for the awards was not satisfied, and in terms of the rules of the scheme, the SARs were automatically forfeited. Forfeitable Share Plan: The performance condition for the awards was not satisfied, and in terms of the rules of the scheme, the shares were automatically forfeited.*

[5] *HJ Verster resigned 22 September 2017 and his exit arrangements were agreed and included in a settlement agreement signed by the parties at that time. Included in the agreement is a provision for a clawback. The agreement is subject to a dispute between the parties. Therefore the amounts included in the remuneration report and already paid out cannot be regarded as final.*

[6] *LS Letsoalo resigned 31 October 2017; all unvested share awards (share options, Share Appreciation Rights, FSP and cash-settled CSP) were automatically forfeited.*

[7] *CDW Botha terminated 30 September 2017; the unvested FSP were automatically forfeited and as agreed in his exit arrangements there was accelerated vesting of the cash-settled CSP bonus shares.*

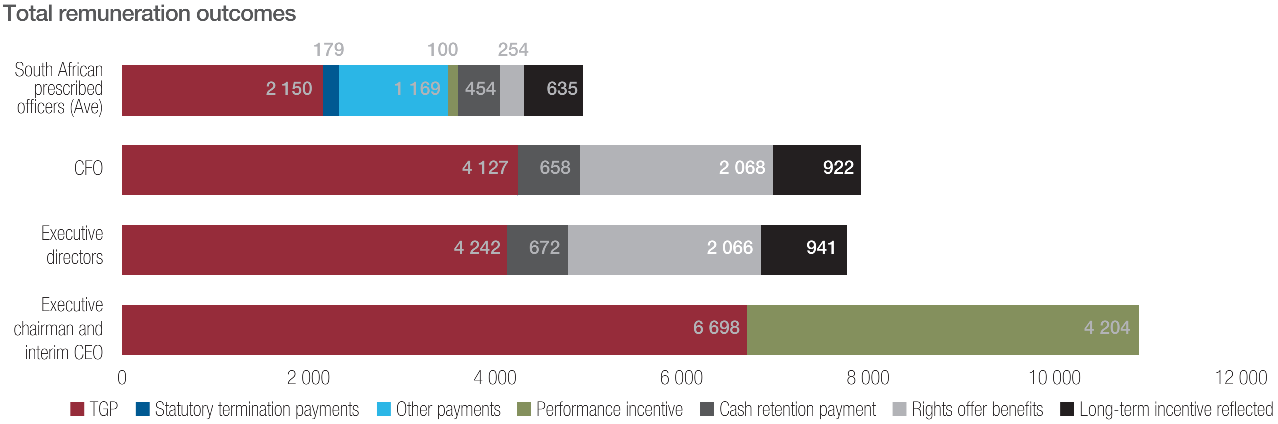
[8] *For the cash award, the number of units is reflected as 1 unit = AUD 1.*

Value of receipts 2017[1] (R)	Estimated closing fair value on 30 June 2017[3] (R)	Granted during 2018	Forfeited / renounced during 2018[4]	**Vested / exercised during 2018**	**Closing number on 30 June 2018**	**Value of receipts 2018[1, 2] (R)**	**Estimated closing fair value on 30 June 2018[3] (R)**
–	–	812 121	–	**–**	**812 121**	**214 398**	**–**
–	–	426 364	–	**–**	**426 364**	**112 559**	**68 218**
–	195 791					**539 201**	**122 166**
–	–	–	–	**–**	**–**	**–**	**–**
–	–	344 498	–	**–**	**344 498**	**48 906**	**–**
–	–	180 861	–	**–**	**180 861**	**25 676**	**28 938**
–	–					**74 582**	**28 938**
–	–	–	–	**–**	**–**	**–**	**–**
–	–	–	–	**–**	**–**	**–**	**–**
–	–	–	(349 200)	**–**	**–**	**–**	**–**
–	254 526	–	–	**(45 614)**	**–**	**165 579**	**–**
–	254 526					**165 579**	**–**
(400 000)	800 000	–	–	**(400 000)**	**400 000**	**400 000**	**400 000**
(400 000)	800 000					**400 000**	**400 000**

Remuneration report continued

Total remuneration outcomes

The total remuneration outcomes in 2018 for the executive and prescribed officers are shown below:



Non-executive director fees

Non-executive director	Directors' fees R'000	Directors' fees R'000	Committee fees R'000	Other fees[1] R'000	Total R'000
EK Diack[2]	165	72	103	–	340
PJ Erasmus[3]	330	108	259	–	697
MA Hermanus	716	327	–	–	1 043
MJ Kilbride	773	–	348	–	1 121
TM Mokgosi-Mwantembe[4]	193	54	93	–	340
MI Seedat[5]	221	47	384		652
KW Mzondeki[6]	761	162	396	–	1 319
SJ Flanagan	744	–	652	278	1 674
Total	3 903	770	2 235	278	7 186
PA Hourquebie (£)[7]	107	–	38	–	145

[1] *Other fees relate to attendance at subsidiary board meetings and extraordinary services rendered.*
[2] *EK Diack appointed executive chairman on 23 August 2017.*
[3] *PJ Erasmus passed away 4 February 2018.*
[4] *TM Mokgosi-Mwantembe resigned 24 November 2017.*
[5] *MI Seedat resigned 24 November 2017.*
[6] *KW Mzondeki appointed lead independent director 23 August 2017.*
[7] *PA Hourquebie fees disclosed in British Pounds (£).*

Voting statement (non-binding advisory vote on the implementation report)

This report is subject to a non-binding advisory vote by shareholders at the 2018 AGM.

Shareholders are requested to cast a non-binding advisory vote on the remuneration implementation report as contained in part 3 of this report.

Approval of remuneration report by the Board of directors

This remuneration report was approved by the Board of directors of Aveng Group Limited.

Shareholders' analysis

as at 29 June 2018

Registered shareholder spread

Shareholder spread	Number of holders	% of total shareholders	Number of shares	% of issued capital
1 – 1 000 shares	1 979	43,19	632 937	0,15
1 001 – 10 000 shares	1 458	31,82	5 857 128	1,41
10 001 – 100 000 shares	783	17,09	26 612 230	6,39
100 001 – 1 000 000 shares	302	6,59	97 543 309	23,41
1 000 001 shares and above	60	1,31	286 025 327	68,65
Total	4 582	100,00	416 670 931	100,00

Beneficial shareholder categories

Category	Total shareholding	% of issued capital
Unit Trusts / mutual fund	179 513 702	43,08
Pension funds	87 092 376	20,90
Private investor	80 204 938	19,25
Hedge fund	16 164 742	3,88
Trading position	16 112 630	3,87
ESOP LTIP	13 046 763	3,13
Black economic empowerment	8 586 593	2,06
Insurance companies	6 913 677	1,66
Employees	6 807 070	1,63
University	3 991 864	0,96
Medical aid scheme	1 928 768	0,46
Custodians	1 132 250	0,27
Local authority	1 085 720	0,26
Charity	1 046 595	0,25
Sovereign wealth	107 581	0,03
Total	423 735 269	101,70

Public and non-public shareholdings

Shareholder type	Number of holders	% of total shareholders	Number of shares	% of issued capital
Non-public shareholders	6	0,13	28 540 087	6,85
Directors	2	0,04	99 661	0,02
Aveng Limited Share Purchase Trust	1	0,02	6 018 386	1,44
Aveng Management Company Proprietary Limited	1	0,02	788 684	0,19
Aveng LTIP	1	0,02	13 046 763	3,13
Community Investment Trust	1	0,02	8 586 593	2,06
Public shareholders	4 576	99,87	388 130 844	93,15
Total	4 582	100,00	416 670 931	100,00

Beneficial shareholders holding more than 3%

Beneficial shareholdings	Total shareholding	%
Alexander Forbes Investment	27 349 351	6,56
Allan Gray Balanced Fund	27 054 953	6,49
Investec Value Fund	26 122 850	6,27
Aveng (Africa) Ltd ESOP LTIP	13 046 763	3,13
Total	93 573 917	6,56

Shareholders' analysis continued

as at 29 June 2018

Substantial investment management and beneficial interests above 3%

Investment management shareholdings

Investment manager	Total shareholding	%
Aton GmbH	100 511 612	24,12
Coronation Asset Management Proprietary Limited	85 815 005	20,60
Allan Gray	45 483 550	10,92
Investec Asset Management	21 768 541	5,22
RMB Morgan Stanley	18 601 141	4,46
Dimensional Fund Advisors	13 046 763	3,13
Total	171 668 237	41,20

Geographic split of investment managers and company-related holdings

Region	Total shareholding	% of issued capital
South Africa	407 167 487	97,72
United States of America and Canada	30 307 623	7,27
United Kingdom	11 266 184	2,70
Rest of Europe	6 209 421	1,49
Rest of World[1]	1 271 270	0,31
Total	456 221 985	109,49

[1] *Represents all shareholdings except those in the above regions.*

Geographic split of beneficial shareholders

Region	Total shareholding	% of issued capital
South Africa	387 520 029	93,00
United States of America and Canada	30 271 002	7,26
United Kingdom	11 626 273	2,79
Rest of Europe	6 397 832	1,54
Rest of World	1 514 869	0,36
Total	437 330 005	104,96

Subsequent to the year end, shares in issue and shareholdings changed as a result of the rights issue and early bond redemption.

Shareholders' diary

Financial year end	30 June
Annual general meeting	4 December 2018
Publication of results	
– Half year ended 31 December 2018	26 February 2019
– Year ended 30 June 2019	20 August 2019

Independent auditor's report on summarised consolidated financial statements

To the shareholders of Aveng Limited

Opinion

The audited summarised consolidated annual financial statements of Aveng Limited, incorporated in the appendix of this integrated annual report, which comprise the summarised consolidated statement of financial position as at 30 June 2018, the summarised consolidated statement of comprehensive earnings and changes in equity, and the summarised consolidated statement of cash flows for the year then ended, on pages 98, 99, 100 and 102 respectively, and related notes on pages 103 to 127, are derived from the audited consolidated Group annual financial statements of Aveng Limited for the year ended 30 June 2018.

In our opinion, the audited summarised consolidated annual financial statements derived from the audited consolidated Group annual financial statements of Aveng Limited for the year ended 30 June 2018 are consistent, in all material respects, with those consolidated financial statements, in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, set out in the 'Board approval' on page 3, and the requirements of the Companies Act of South Africa as applicable to summarised financial statements.

Summarised financial statements

The audited summarised consolidated annual financial statements do not contain all the disclosures required by IFRS and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the audited summarised consolidated annual financial statements, therefore, is not a substitute for reading the audited consolidated Group annual financial statements of Aveng Limited. The audited summarised consolidated annual financial statements and the audited consolidated Group annual financial statements do not reflect the effect of events that occurred subsequent to the date of our report on the audited consolidated Group annual financial statements.

The audited financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated Group annual financial statements of Aveng Limited in our report dated 25 September 2018. That report included the communication of other key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period.

Directors' responsibility for the audited summarised consolidated annual financial statements

The directors are responsible for the preparation of the audited summarised consolidated annual financial statements in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, set out in the 'Board approval' on page 3, and the requirements of the Companies Act of South Africa as applicable to summarised financial statements, and for such internal control as the directors determine is necessary to enable the preparation of the audited summarised consolidated annual financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on whether the audited summarised consolidated annual financial statements are consistent, in all material respects, with the audited consolidated Group annual financial statements based on our procedures, which were conducted based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summarised Financial Statements.

Ernst & Young Inc.

Ernst & Young Inc.
Director: Allister Jon Carshagen

102 Rivonia Road
Johannesburg
Gauteng
South Africa
2146

31 October 2018

Summarised consolidated statement of financial position

as at 30 June 2018

	Notes	2018 Rm	2017 Rm
ASSETS			
Non-current assets			
Goodwill arising on consolidation		**100**	342
Intangible assets		**47**	271
Property, plant and equipment		**3 010**	4 611
Equity-accounted investments		**73**	334
Infrastructure investments		**142**	265
Deferred taxation	8	**747**	1 290
Amounts due from contract customers	9	**661**	756
		4 780	7 869
Current assets			
Inventories		**255**	2 085
Derivative instruments		**3**	2
Amounts due from contract customers	9	**2 649**	3 712
Trade and other receivables		**180**	1 840
Taxation receivable		**39**	61
Cash and bank balances		**2 391**	1 996
		5 517	9 696
Assets Held for Sale	10	**4 773**	122
TOTAL ASSETS		**15 070**	17 687
EQUITY AND LIABILITIES			
Equity			
Share capital and share premium		**2 009**	2 009
Other reserves		**1 118**	1 060
Retained earnings		**(542)**	2 981
Equity attributable to equity-holders of parent		**2 585**	6 050
Non-controlling interest		**9**	8
TOTAL EQUITY		**2 594**	6 058
Liabilities			
Non-current liabilities			
Deferred taxation	8	**49**	319
Borrowings and other liabilities	11	**2 688**	1 945
Payables other than contract-related		**125**	133
Employee-related payables		**248**	312
		3 110	2 709
Current liabilities			
Amounts due to contract customers	9	**1 140**	1 351
Borrowings and other liabilities	11	**599**	1 121
Payables other than contract-related		**21**	21
Employee-related payables		**253**	501
Derivative instruments		**–**	17
Trade and other payables		**2 958**	5 909
Bank overdrafts		**315**	–
		5 286	8 920
Liabilities Held for Sale	10	**4 080**	–
TOTAL LIABILITIES		**12 476**	11 629
TOTAL EQUITY AND LIABILITIES		**15 070**	17 687

Summarised consolidated statement of comprehensive earnings

for the year ended 30 June 2018

	Notes	2018 Rm	2017 Rm
Revenue		**30 580**	23 456
Cost of sales		**(28 782)**	(26 591)
Gross earnings / (loss)		**1 798**	(3 135)
Other earnings		**106**	206
Operating expenses		**(2 292)**	(2 305)
(Loss) / earnings from equity-accounted investments		**(13)**	4
Operating loss		**(401)**	(5 230)
South African government settlement		**–**	(165)
Net operating loss		**(401)**	(5 395)
Impairment loss on goodwill, intangible assets and property, plant and equipment	6	**(1 298)**	(278)
Impairment loss on equity-accounted investments		**(195)**	–
Fair value adjustment on properties and disposal groups classified as Held for Sale	10	**(807)**	–
Profit on sale of property, plant and equipment		**47**	4
Loss before financing transactions		**(2 654)**	(5 669)
Interest received on bank balances		**246**	198
Interest on convertible bonds	11	**(251)**	(237)
Other finance expenses		**(434)**	(405)
Loss before taxation		**(3 093)**	(6 113)
Taxation	12	**(426)**	(626)
Loss for the period		**(3 519)**	(6 739)
Loss from continuing operations		**(1 050)**	(6 238)
Loss from discontinued operations	4	**(2 469)**	(501)
Other comprehensive earnings			
Other comprehensive earnings to be reclassified to earnings or loss in subsequent periods (net of taxation):			
Exchange differences on translating foreign operations		**48**	(773)
Other comprehensive earnings / (loss) for the period, net of taxation		**48**	(773)
Total comprehensive loss for the period		**(3 471)**	(7 512)
Total comprehensive loss from continuing operations		**(1 002)**	(7 011)
Total comprehensive loss from discontinued operations	4	**(2 469)**	(501)
Total comprehensive loss for the period attributable to:			
Equity-holders of the parent		**(3 473)**	(7 481)
Non-controlling interest		**2**	(31)
		(3 471)	(7 512)
Loss for the period attributable to:			
Equity-holders of the parent		**(3 523)**	(6 708)
Non-controlling interest		**4**	(31)
		(3 519)	(6 739)
Other comprehensive earnings / (loss) for the period, net of taxation			
Equity-holders of the parent		**50**	(773)
Non-controlling interest		**(2)**	–
		48	(773)
Results per share (cents)			
From continuing and discontinued operations			
Loss – basic		**(653,9)**	(1 245,1)
Loss – diluted		**(642,9)**	(1 233,1)
From continuing operations			
Loss – basic		**(195,6)**	(1 152,1)
Loss – diluted		**(192,4)**	(1 141,0)
From discontinued operations			
Loss – basic		**(458,3)**	(93,0)
Loss – diluted		**(450,6)**	(92,1)
Number of shares (millions)			
In issue		**416,7**	416,7
Weighted average		**538,8**	538,8
Diluted weighted average		**548,0**	544,0

EBITDA for the Group, being net operating earnings before interest, tax, depreciation and amortisation is R293 million (June 2017: R(4 740) million).

Summarised consolidated statement of changes in equity

for the year ended 30 June 2018

	Share capital Rm	Share premium Rm	Total share capital and premium Rm	Foreign currency translation reserve Rm
Balance at 1 July 2016	20	1 989	2 009	1 534
Loss for the period	–	–	–	–
Other comprehensive loss for the period (net of taxation)	–	–	–	(773)
Total comprehensive loss the period	–	–	–	(773)
Equity-settled share-based payment charge	–	–	–	–
Decrease in equity investment	–	–	–	–
Dividends paid	–	–	–	–
Total contributions and distributions recognised	–	–	–	–
Balance at 1 July 2017	**20**	**1 989**	**2 009**	**761**
Loss for the period	**–**	**–**	**–**	**–**
Other comprehensive earnings for the period (net of taxation)	**–**	**–**	**–**	**50**
Total comprehensive loss for the period	**–**	**–**	**–**	**50**
Equity-settled share-based payment charge	**–**	**–**	**–**	**–**
Dividends paid	**–**	**–**	**–**	**–**
Total contribution and distributions recognised	**–**	**–**	**–**	**–**
Balance at 30 June 2018	**20**	**1 989**	**2 009**	**811**

Equity-settled share-based payment reserve Rm	Con-vertible bond equity reserve Rm	**Total other reserves Rm**	Retained earnings Rm	**Total attribu-table to equity-holders of the parent Rm**	Non-controlling interest Rm	**Total equity Rm**
19	268	1 821	9 689	13 519	37	13 556
–	–	–	(6 708)	(6 708)	(31)	(6 739)
–	–	(773)	–	(773)	–	(773)
–	–	(773)	(6 708)	(7 481)	(31)	(7 512)
12	–	12	–	12	–	12
–	–	–	–	–	5	5
–	–	–	–	–	(3)	(3)
12	–	12	–	12	2	14
31	**268**	**1 060**	**2 981**	**6 050**	**8**	**6 058**
–	**–**	**–**	**(3 523)**	**(3 523)**	**4**	**(3 519)**
–	**–**	**50**	**–**	**50**	**(2)**	**48**
–	**–**	**50**	**(3 523)**	**(3 473)**	**2**	**(3 471)**
8	**–**	**8**	**–**	**8**	**–**	**8**
–	**–**	**–**	**–**	**–**	**(1)**	**(1)**
8	**–**	**8**	**–**	**8**	**(1)**	**7**
39	**268**	**1 118**	**(542)**	**2 585**	**9**	**2 594**

Summarised consolidated statement of cash flows

for the year ended 30 June 2018

	Notes	2018 Rm	2017 Rm
Operating activities			
Cash utilised from operations		**(2 648)**	(5 681)
Non-cash and other movements	13	**2 177**	4 490
Cash utilised from operations after non-cash movements		**(471)**	(1 191)
Depreciation		**666**	627
Amortisation		**28**	28
Cash generated / (utilised) by operations		**223**	(536)
Changes in working capital:			
Decrease in inventories		**1 847**	163
Decrease in amounts due from contract customers		**1 158**	27
Decrease in trade and other receivables		**1 660**	198
(Decrease) / increase in amounts due to contract customers		**(211)**	29
(Decrease) / increase in trade and other payables		**(2 959)**	28
(Decrease) / increase in derivative instruments		**(18)**	8
(Decrease) / increase in payables other than contract-related		**(21)**	144
Decrease in employee-related payables		**(340)**	(79)
Increase in net assets and liabilities classified as Held for Sale		**(526)**	(106)
Total changes in working capital		**590**	412
Cash generated / (utilised) by operating activities		**813**	(124)
Finance expenses paid		**(532)**	(531)
Finance earnings received		**244**	215
Taxation paid		**(95)**	(182)
Cash inflow / (outflow) from operating activities		**430**	(622)
Investing activities			
Acquisition of property, plant and equipment – expansion		**(138)**	(135)
Acquisition of property, plant and equipment – replacement		**(625)**	(793)
Proceeds on disposal of property, plant and equipment		**291**	315
Proceeds on disposal of other assets		**–**	104
Proceeds on disposal of ACP assets		**–**	821
Net proceeds on disposal of Steeledale assets		**–**	50
Acquisition of intangible assets – replacement		**(23)**	(27)
Capital expenditure net of proceeds on disposal		**(495)**	335
Net loans repaid by / (advanced to) equity-accounted investments net of dividends received		**18**	(27)
Increase in equity-accounted investments		**–**	(11)
Net loans repaid by infrastructure investment companies		**6**	9
Dividend received		**7**	8
Cash (outflow) / inflow from investing activities		**(464)**	314
Operating free cash outflow		**(34)**	(308)
Loans advanced by non-controlling interest		**–**	5
Dividends paid		**(1)**	(3)
Net proceeds / (repayment of) from borrowings		**134**	(25)
Cash inflow / (outflow) from financing activities		**133**	(23)
Net increase / (decrease) in cash and bank balances before foreign exchange movements		**99**	(331)
Foreign exchange movements on cash and bank balances		**(19)**	(123)
Cash and bank balances at the beginning of the period		**1 996**	2 450
Total cash and bank balances at the end of the period		**2 076**	1 996
Borrowings excluding bank overdrafts		**3 287**	3 066
Net debt position		**(1 211)**	(1 070)

Summarised consolidated accounting policies

for the year ended 30 June 2018

1. CORPORATE INFORMATION

The summarised audited consolidated financial statements ("results") of Aveng Limited (the "Company") and its subsidiaries (the "Group") for the period ended 30 June 2018 were authorised for issue in accordance with a resolution of the directors on 25 September 2018.

Nature of business

Aveng Limited is a limited liability company incorporated and domiciled in the Republic of South Africa whose shares are publicly traded. The Group operates in the construction, engineering and mining environments and as a result the revenue is not seasonal in nature, but is influenced by the nature and execution of the contracts currently in progress.

2. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accounting policies below are applied throughout the summarised audited consolidated financial statements.

Basis of preparation

The summarised audited consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets which are measured at fair value.

These summarised audited consolidated financial statements are presented in South African Rand ("ZAR") and all values are rounded to the nearest million ("Rm") except where otherwise indicated. The summarised audited consolidated financial statements are prepared in accordance with IAS 34 *Interim Financial Statements* and the Listings Requirements of the Johannesburg Stock Exchange Limited ("JSE"). The accounting policies adopted are consistent with those of the previous year as well as the Group's interim results as at 31 December 2017, except as disclosed in *note 4: Standards and interpretations effective and not yet effective* of the Group's audited consolidated financial statements.

The summarised audited consolidated financial results do not include all the information and disclosures required in the consolidated financial statements, and should be read in conjunction with the Group's audited consolidated financial statements as at 30 June 2018 that are available on the Company's website, www.aveng.co.za.

The financial results have been prepared by Efstathios White CA(SA) under the supervision of the Group CFO, Adrian Macartney CA(SA).

The summarised audited consolidated financial statements have been audited by Ernst & Young Incorporated and the unqualified audit opinion is available on request from the company secretary at the Company's registered office.

Assessment of significance or materiality of amounts disclosed in these summarised results

The Group presents amounts in these summarised results in accordance with *International Financial Reporting Standards* ("IFRS"). Only amounts that have a relevant and material impact on the summarised results have been separately disclosed. The assessment of significant or material amounts is determined by taking into account the qualitative and quantitative factors attached to each transaction or balance that is assessed.

Notes to the summarised consolidated financial statements

for the year ended 30 June 2018

3. GOING CONCERN AND LIQUIDITY

As detailed in *note 2: Presentation of Consolidated Financial Statements* and *note 15: Events after the reporting period and pending transactions* to the financial statements, in determining the appropriate basis of preparation of the financial statements, the Board is required to consider whether the Company can continue in operational existence for the foreseeable future.

Management has prepared a budget and business plan for the 2019 financial year and the following two years, as well as cash flow forecasts covering a minimum of 12 months from the date of these financial statements. These forecasts have been prepared with the assistance of independent external advisers to ensure that they have been accurately compiled using appropriate assumptions. The budgets, plans and forecasts have, together with the assumptions used, been interrogated and approved by the Board. These forecasts and plans, being implemented by management, indicate that the Group will have sufficient cash resources for the foreseeable future. In approving the operational and liquidity forecasts, the Board has considered the following information up to the date of approval of these financial statements:

- Strategy adopted by the Board and announced on 26 February 2018;
- Successful R493 million rights issue concluded on 4 July 2018;
- Early redemption of the R2 billion convertible bond, including the successful raising of a new R460 million debt instrument to facilitate the settlement of R657 million of existing convertible bonds at a 30% discount ahead of the early redemption. The remaining R1,4 billion bonds were settled through the specific issue of ordinary shares at R0,10 per share on 25 September 2018;
- Implementation of a revised Common Terms Agreement with the South African lending banks that includes renewed facilities, additional funding of R400 million and extended funding terms to 2020;
- Updated non-core asset disposal plan, including the announced property disposals of R254 million;
- Updated budget and business plans for the post year end period up to 31 December 2019 for the Group, incorporating the benefits already realised from the strategic action plan such as improved operating performance, greater predictability of performance and working capital enhancements, as well as future benefits to liquidity to be achieved once non-core businesses have been disposed;
- Sensitivity testing of key inputs included in the operating and liquidity budgets to ascertain the effect of non-achievement of one or all of the key inputs (operational performance, non-core asset disposal timing), including any effect on the ongoing compliance with covenant requirements in place with the South African lending banks, Australian banks or other financing agreements; and
- A short-term liquidity forecast management process that has been introduced and embedded in all the South African operations with the help of external consultants.

In the 2018 financial year, the Group reported a loss after tax of R3,5 billion due to R2,3 billion impairments and losses incurred of R1,2 billion. As a result of these losses and continued difficult trading conditions in the wider industry, the Group's available cash resources were negatively impacted. The Group continues to focus on improving operational performance, reducing overhead and improving working capital efficiencies. To this end, a number of Group initiatives have been concluded, implemented or are in progress.

The Group has cash (net of bank overdraft facilities) of R2,1 billion (2017: R2,0 billion) at year end, R568 million (2017: R625 million) of which is held in joint arrangements. Advance payments that will be used in the short term amount to R85 million (2017: R146 million) while short-term debt repayments (excluding finance lease liabilities) are R255 million (2017: R704 million). After working capital requirements of R800 million (2017: R800 million) and unutilised facilities of R536 million (2017: R1,4 billion), the short-term liquidity of the Group is considered to be satisfactory to the Board with liquidity headroom of R904 million. This position is further enhanced after the conclusion of the capital markets transactions detailed in *note 15: Events after the reporting period and pending transactions*.

A revised Common Terms Agreement has been concluded with the South African lending banks. Through this process the Group negotiated renewed facilities, obtained additional funding to improve the liquidity position and extended the funding terms to 2020. The Board believes that the support from the South African lending banks, together with the R493 million capital injection following the rights issue and the early redemption of the convertible bonds that will substantially alleviate the interest burden for the Group will provide adequate financial resources to enable the Group to meet its obligations over the next 12 months and beyond.

The directors have considered all of the above, including detailed consideration of all business plans and forecasts, including all available information, and are therefore of the opinion that the going concern assumption is appropriate in the preparation of the financial statements, and that sufficient liquidity will be available to support the ongoing operations of the Group.

4. DISCONTINUED OPERATIONS

Identification and classification of discontinued operations

During the financial year, management embarked on an extensive strategic review to ensure the Group's sustainable future. The review was completed in February 2018 following a thorough and robust interrogation of all parts of the business. The review included the identification of businesses and assets that are core to the Group and which support the overall long-term strategy, determining the most appropriate operating structure, as well as recommending a sustainable future capital and funding model.

A comprehensive plan was developed and is being implemented by management to execute on the critical findings of the strategic review. Some of the findings included the reshaping of the Group's operating structure to a smaller and more focused group. The newly envisaged Group structure comprises McConnell Dowell and Aveng Mining forming the core businesses, with Aveng Grinaker-LTA, Aveng Manufacturing and Aveng Trident Steel being deemed the non-core operating groups. As at 30 June 2018, management was committed to exit and dispose of the identified non-core operating groups.

Aveng Grinaker-LTA, forming part of the *Construction and Engineering: South Africa and rest of Africa* reportable segment (refer to *note 5: Segmental report*) and Aveng Manufacturing and Aveng Trident Steel, both forming part of the *Manufacturing and Processing* reportable segment (refer to *note 5: Segmental report*), have met the requirements in terms of *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* and have been presented as discontinued operations in the Group's statement of comprehensive earnings.

The Group's intention to dispose of the non-core operating groups triggered an impairment assessment on the underlying assets allocated to the identified cash-generating units of the operating groups – refer to *note 6: Impairments*.

The underlying assets and liabilities of the non-core operating groups were classified as Held for Sale per the requirements of *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* in separately identifiable disposal groups – refer to *note 10: Assets and liabilities classified as Held for Sale*.

Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2018

4. DISCONTINUED OPERATIONS continued

Identification and classification of discontinued operations

The loss from discontinued operations is analysed as follows:

	2018 Rm	2017 Rm
Revenue	13 975	13 812
Cost of sales	(13 659)	(13 287)
Gross earnings	316	525
Other earnings	113	168
Operating expenses	(966)	(1 084)
Earnings / (loss) from equity-accounted investments	3	(4)
Operating loss	(534)	(395)
Impairment loss on goodwill, intangible assets and property, plant and equipment	(1 132)	(240)
Impairment loss on equity-accounted investments	(7)	–
Fair value adjustments on properties and disposal groups classified as Held for Sale	(734)	–
Profit on sale of property, plant and equipment	12	3
Loss before financing transactions	(2 395)	(632)
Net finance expenses	(89)	(32)
Loss before taxation	(2 484)	(664)
Taxation	15	163
Loss for the period	(2 469)	(501)
Attributable to:		
Equity-holders of the parent	(2 469)	(501)
Other comprehensive earnings for the period, net of taxation	–	–
Total comprehensive loss for the period	(2 469)	(501)
Items by nature		
Capital expenditure	138	222
Depreciation	(132)	(171)
Amortisation	(8)	(13)
Loss before interest, taxation, depreciation and amortisation (EBITDA)	(394)	(211)
Results per share (cents)		
Loss – basic	(458,3)	(93,0)
Loss – diluted	(450,6)	(92,1)
Net cash flows in relation to discontinued operations:		
Cash outflow from operating activities	(4)	(886)
Cash (outflow) / inflow from investing activities	(93)	670
Cash inflow from financing activities	17	5

5. SEGMENTAL REPORT

The reportable segments of the Group are components:

- that engage in business activities from which they earn revenues and incur expenses; and
- have operating results that are regularly reviewed by the Group's chief operating decision makers to make decisions about resources to be allocated to the segments and in the assessment of their performance as required per *IFRS 8: Operating Segments*.

Prior to the outcome of the strategic review and management's plan to reshape and refocus the operating structure of the Group, the following five reportable segments were presented which were largely organised and managed separately according to the nature of products and services provided:

- Construction and Engineering: Australasia and Asia;
- Mining;
- Other and Eliminations;
- Construction and Engineering: South Africa and rest of Africa; and
- Manufacturing and Processing.

In line with the findings of the strategic review and as discussed in *note 4: Discontinued operations*, the *Construction and Engineering: South Africa and rest of Africa* and *Manufacturing and Processing* reportable segments are presented and disclosed as discontinued operations. The *Construction and Engineering: Australasia and Asia, Mining* and *Other and Eliminations* reporting segments are presented as continuing operations.

The reportable segments are presented per their classification as continuing and discontinued operations in the disclosure of the segmental statement of comprehensive earnings and segmental statement of financial position.

Details on the reportable segments are as follows:

5.1 Continuing operations

5.1.1 Construction and Engineering: Australasia and Asia

This segment comprises McConnell Dowell and is divided into the following business units: Australia, New Zealand and Pacific, Built Environs, Southeast Asia and Middle East.

This segment specialises in the construction and maintenance of tunnels and pipelines, railway infrastructure maintenance and construction, marine and mechanical engineering, industrial building projects, Oil & Gas construction and mining and mineral construction.

5.1.2 Mining

This segment comprises Aveng Mining and operates in the open cut and underground mining sectors. Revenues from this segment are derived from mining-related activities.

5.1.3 Other and Eliminations

This segment comprises corporate services, Africa construction, corporate held investments, including properties and consolidation eliminations.

Included in the segment are several properties that are classified as Held for Sale – refer to *note 10: Assets and liabilities classified as Held for Sale*. As these properties are separately identifiable assets, the segment remains a continuing operation.

5.2 Discontinued operations

5.2.1 Construction and Engineering: South Africa and rest of Africa

This segment includes: Aveng Grinaker-LTA and Aveng Capital Partners ("ACP"). Aveng Grinaker-LTA is divided into the following business units: Aveng Grinaker-LTA Building and Coastal, Aveng Grinaker-LTA Civil Engineering (including Rand Roads and GEL), Aveng Grinaker-LTA Mechanical & Electrical and Aveng Water.

Revenues from this segment include the supply of expertise in a number of market sectors: power, mining, infrastructure, commercial, retail, industrial, Oil & Gas, real estate and renewable concessions and investments.

5.2.2 Manufacturing and processing

This segment comprises Aveng Manufacturing and Aveng Steel.

The revenues from this segment comprise the supply of products, services and solutions to the mining, construction, Oil & Gas, water, power and rail sectors across the Group's value chain locally and internationally.

Aveng Manufacturing business units include Aveng Automation and Control Solutions ("ACS"), Aveng Dynamic Fluid Control ("DFC"), Aveng Duraset, Aveng Infraset and Aveng Rail.

Aveng Trident Steel is the only business unit in Aveng Steel.

Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2018

5. SEGMENTAL REPORT continued

Statement of financial position

CONTINUING OPERATIONS

	Construction and Engineering: Australasia and Asia			Mining			Other and Eliminations		
	2018	2017	%	2018	2017	%	2018	2017	%
Assets									
Goodwill arising on consolidation	100	100	–	–	–	–	–	232	(100,0)
Intangible assets	–	–	–	24	28	(14,3)	23	148	(84,5)
Property, plant and equipment	409	602	(32,1)	2 598	2 539	2,3	3	306	(99,0)
Equity-accounted investments	31	52	(40,4)	1	4	(75,0)	16	319	(95,0)
Infrastructure investments	–	–	–	–	–	–	142	142	–
Deferred taxation	644	551	16,9	14	47	(70,2)	8	530	(98,5)
Derivative instruments	–	–	–	3	2	50,0	–	–	–
Amounts due from contract customers	2 838	3 029	(6,3)	518	764	(32,2)	(46)	(287)	84,0
Inventories	20	9	>100,0	235	211	11,4	–	–	–
Trade and other receivables	58	86	(32,6)	66	93	(29,0)	56	136	(58,8)
Taxation receivable	20	10	100,0	7	25	(72,0)	2	15	(86,7)
Cash and bank balances	1 443	1 237	16,7	286	410	(30,2)	(336)	(393)	14,5
Assets Held for Sale	99	–	100,0	–	–	–	224	118	89,8
Total assets	5 662	5 676	(0,2)	3 752	4 123	(9,0)	92	1 266	(92,7)
Liabilities									
Deferred taxation	90	–	100,0	264	184	43,5	(382)	133	>(100,0)
Borrowings and other liabilities	204	921	(77,9)	200	317	(36,9)	2 883	1 824	58,1
Payables other than contract-related	–	–	–	–	–	–	146	154	(5,2)
Employee-related payables	320	298	7,4	116	187	(38,0)	65	80	(18,8)
Derivative instruments	–	–	–	–	–	–	–	–	–
Trade and other payables	1 999	2 304	(13,2)	638	677	(5,8)	296	205	44,4
Amounts due to contract customers	1 098	854	28,6	42	85	(50,6)	–	17	(100,0)
Bank overdrafts	–	–	–	–	–	–	315	–	100,0
Liabilities Held for Sale	–	–	–	–	–	–	–	–	–
Total liabilities	3 711	4 377	(15,2)	1 260	1 450	(13,1)	3 323	2 413	37,7

			DISCONTINUED OPERATIONS								
Total			Construction and Engineering: South Africa and rest of Africa			Manufacturing and Processing			Total		
2018	2017	%	2018	2017	%	2018	2017	%	2018	2017	%
100	332	(69,9)	–	–	–	–	10	(100,0)	–	10	(100,0)
47	176	(73,3)	–	–	–	–	95	(100,0)	–	95	(100,0)
3 010	3 447	(12,7)	–	398	(100,0)	–	766	(100,0)	–	1 164	(100,0)
48	375	(87,2)	25	(40)	>100,0	–	(1)	100,0	25	(41)	>100,0
142	142	–	–	123	(100,0)	–	–	–	–	123	(100,0)
666	1 128	(41,0)	78	143	(45,5)	3	19	(84,2)	81	162	(50,0)
3	2	50,0	–	–	–	–	–	–	–	–	–
3 310	3 506	(5,6)	–	876	(100,0)	–	86	(100,0)	–	962	(100,0)
255	220	15,9	–	40	(100,0)	–	1 825	(100,0)	–	1 865	(100,0)
180	315	(42,9)	–	112	(100,0)	–	1 413	(100,0)	–	1 525	(100,0)
29	50	(42,0)	1	12	(91,7)	9	(1)	>100,0	10	11	(9,1)
1 393	1 254	11,1	474	237	100,0	524	505	3,8	998	742	34,5
323	118	>100,0	1 201	4	>100,0	3 249	–	100,0	4 450	4	>100,0
9 506	11 065	(14,1)	1 779	1 905	(6,6)	3 785	4 717	(19,8)	5 564	6 622	(16,0)
(28)	317	>(100,0)	13	–	100,0	64	2	>100,0	77	2	>100,0
3 287	3 062	7,3	–	–	–	–	4	(100,0)	–	4	(100,0)
146	154	(5,2)	–	–	–	–	–	–	–	–	–
501	565	(11,3)	–	173	(100,0)	–	75	(100,0)	–	248	(100,0)
–	–	–	–	–	–	–	17	(100,0)	–	17	(100,0)
2 933	3 186	(7,9)	25	966	(97,4)	–	1 757	(100,0)	25	2 723	(99,1)
1 140	956	19,2	–	394	(100,0)	–	1	(100,0)	–	395	(100,0)
315	–	100,0	–	–	–	–	–	–	–	–	–
–	–	–	1 605	–	100,0	2 475	–	100,0	4 080	–	100,0
8 294	8 240	0,7	1 643	1 533	7,2	2 539	1 856	36,8	4 182	3 389	23,4

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5. SEGMENTAL REPORT continued

Statement of comprehensive earnings

CONTINUING OPERATIONS

	Construction and Engineering: Australasia and Asia			Mining			Other and Eliminations		
	2018	2017	%	2018	2017	%	2018	2017	%
Revenue	11 716	6 183	89,5	4 713	4 184	12,6	176	(723)	>100,0
Cost of sales	(10 788)	(9 767)	(10,5)	(4 452)	(3 774)	(18,0)	117	237	(50,6)
Gross earnings / (loss)	928	(3 584)	>100,0	261	410	(36,3)	293	(486)	>100,0
Other earnings / (loss)	7	9	(22,2)	(23)	6	>(100,0)	9	23	(61,6)
Operating expenses	(827)	(810)	(2,1)	(227)	(197)	(15,1)	(272)	(214)	(27,1)
(Loss)/earnings from equity-accounted investments	(5)	15	>(100,0)	–	–	–	(11)	(7)	(57,1)
Operating (loss) / profit	103	(4 370)	>100,0	11	219	(94,9)	19	(684)	>100,0
South African government settlement	–	–	–	–	–	–	–	(165)	100,0
Net operating (loss) / earnings	103	(4 370)	>100,0	11	219	(94,9)	19	(849)	>100,0
Impairment loss on goodwill, intangible assets and property, plant and equipment	–	–	–	(55)	1	>(100,0)	(111)	(39)	>(100,0)
Impairment loss on equity-accounted investments	–	–	–	–	–	–	(188)	–	(100,0)
Fair value adjustments on properties and disposal groups classified as Held for Sale	–	–	–	–	–	–	(73)	–	(100,0)
Profit on sale of property, plant and equipment	32	–	100,0	–	–	–	3	1	>100,0
(Loss) / profit before financing transactions	135	(4 370)	>100,0	(44)	220	>(100,0)	(350)	(887)	60,5
Net finance expenses	(220)	(179)	(22,9)	(63)	(20)	>(100,0)	(67)	(213)	68,5
(Loss) / earnings before taxation	(85)	(4 549)	98,1	(107)	200	>(100,0)	(417)	(1 100)	62,1
Taxation	(36)	(209)	82,8	(116)	(90)	(28,9)	(289)	(490)	41,0
Loss for the period	(121)	(4 758)	97,5	(223)	110	>(100,0)	(706)	(1 590)	55,6
Capital expenditure	136	168	(19,0)	507	557	(9,0)	5	8	(37,5)
Depreciation	(132)	(175)	24,6	(394)	(269)	(46,5)	(8)	(11)	27,3
Amortisation	–	–	–	(4)	(1)	>(100,0)	(16)	(15)	(6,7)
(Loss) / earnings before interest, taxation, depreciation and amortisation (EBITDA)	235	(4 195)	>100,0	409	489	(16,4)	43	(823)	>100,0

			DISCONTINUED OPERATIONS								
Total			Construction and Engineering: South Africa and rest of Africa			Manufacturing and Processing			Total		
2018	2017	%	**2018**	2017	%	**2018**	2017	%	**2018**	2017	%
16 605	9 644	72,2	**6 622**	5 876	12,7	**7 353**	7 936	(7,3)	**13 975**	13 812	1,2
(15 123)	(13 304)	(13,7)	**(6 660)**	(5 843)	(14,0)	**(6 999)**	(7 444)	6,0	**(13 659)**	(13 287)	(2,8)
1 482	(3 660)	>100,0	**(38)**	33	>(100,0)	**354**	492	(28,0)	**316**	525	(39,8)
(7)	38	>(100,0)	**21**	60	(65,0)	**92**	108	(14,8)	**113**	168	(32,7)
(1 326)	(1 221)	(8,6)	**(353)**	(481)	26,5	**(613)**	(603)	(1,7)	**(966)**	(1 084)	10,9
(16)	8	>(100,0)	**3**	(4)	>100,0	**–**	–	–	**3**	(4)	>100,0
133	(4 835)	>100,0	**(367)**	(392)	6,3	**(167)**	(3)	>(100,0)	**(534)**	(395)	(35,3)
–	(165)	100,0	**–**	–	–	**–**	–	–	**–**	–	–
133	(5 000)	>100,0	**(367)**	(392)	6,3	**(167)**	(3)	>(100,0)	**(534)**	(395)	(35,3)
(166)	(38)	>(100,0)	**(82)**	33	>(100,0)	**(1 050)**	(273)	>(100,0)	**(1 132)**	(240)	>(100,0)
(188)	–	(100,0)	**(7)**	–	(100,0)	**–**	–	–	**(7)**	–	(100,0)
(73)	–	(100,0)	**–**	–	–	**(734)**	–	(100,0)	**(734)**	–	(100,0)
35	1	>100,0	**11**	–	100,0	**1**	3	(66,7)	**12**	3	>100,0
(259)	(5 037)	94,9	**(445)**	(359)	(24,0)	**(1 950)**	(273)	>(100,0)	**(2 395)**	(632)	>(100,0)
(350)	(412)	15,0	**(12)**	14	>(100,0)	**(77)**	(46)	(67,4)	**(89)**	(32)	>(100,0)
(609)	(5 449)	88,8	**(457)**	(345)	(32,5)	**(2 027)**	(319)	>(100,0)	**(2 484)**	(664)	>(100,0)
(441)	(789)	44,1	**(37)**	93	>(100,0)	**52**	70	(25,7)	**15**	163	(90,8)
(1 050)	(6 238)	83,2	**(494)**	(252)	(96,0)	**(1 975)**	(249)	>(100,0)	**(2 469)**	(501)	>(100,0)
648	733	(11,6)	**49**	80	(38,8)	**89**	142	(37,3)	**138**	222	(37,8)
(534)	(455)	(17,4)	**(62)**	(69)	10,1	**(70)**	(102)	31,4	**(132)**	(171)	22,8
(20)	(16)	(25,0)	**–**	–	–	**(8)**	(13)	38,5	**(8)**	(13)	38,5
687	(4 529)	>100,0	**(305)**	(323)	5,6	**(89)**	112	>(100,0)	**(394)**	(211)	(86,7)

Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2018

5. SEGMENTAL REPORT continued

The Group operates in six principal geographical areas:

	2018 Revenue Rm	2017 Revenue Rm	2018 Segment assets Rm	2017 Segment assets Rm	2018 Capital expenditure Rm	2017 Capital expenditure Rm
South Africa	16 754	15 281	9 349	11 172	554	684
Rest of Africa including Mauritius	1 910	1 717	1 071	1 157	95	102
Australia	6 817	1 193	2 148	2 751	59	94
New Zealand	1 734	2 580	469	798	25	25
Southeast Asia	2 602	2 427	1 833	1 631	52	49
Middle East and other regions	763	258	200	178	1	1
	30 580	23 456	15 070	17 687	786	955

6. IMPAIRMENTS

The Group performed its annual impairment test at 30 June 2018. The test involves the assessment of internal and external qualitative factors for each cash-generating unit ("CGU") that may constitute an indicator of impairment. The test may extend to individual assets in instances of underutilisation, obsolescence, physical damage or material decline in the economic performance of the asset.

CGUs of the Group

As detailed in *note 4: Discontinued operations*, the Board made the decision that the operating groups of the following reportable segments no longer form part of the overall long-term strategy of the Group:

- *Construction and Engineering: South Africa and rest of Africa; and*
- *Manufacturing and Processing.*

The intention of the Board to discontinue the operations of these reportable segments and the subsequent classification of the underlying assets and liabilities as Held for Sale are indicators of impairment – refer to *note 10: Assets and liabilities classified as Held for Sale*.

The following business units were deemed to be individual CGUs on which individual impairment assessments were performed:

Construction and Engineering: South Africa and rest of Africa

- Aveng Water;
- Aveng Grinaker-LTA Building;
- Aveng Grinaker-LTA Coastal;
- Aveng Grinaker-LTA Civil Engineering;
- Aveng Grinaker-LTA GEL;
- Aveng Grinaker-LTA Mechanical and Electrical; and
- Aveng Grinaker-LTA Rand Roads.

Manufacturing and Processing

- Aveng Trident Steel;
- Aveng Automation and Control Solutions ("ACS");
- Aveng Dynamic Fluid Control ("DFC");
- Aveng Rail;
- Aveng Duraset; and
- Aveng Infraset.

Goodwill arising on consolidation

A compulsory impairment assessment of goodwill allocated to the Aveng DFC and McConnell Dowell CGUs were performed in the current year. The McConnell Dowell CGU falls under the *Construction and Engineering: Australasia and Asia* reportable segment.

6. IMPAIRMENTS continued

Other individual assets in scope of IAS 36

The outcome of the strategic review included the intention to dispose of certain non-core properties. The intention to dispose of these properties, triggered an impairment assessment prior to classification as Held for Sale. These affected properties are accounted for in the *Other and Eliminations* reportable segment.

Centralised software systems managed at Corporate level are deemed corporate assets as defined by *IAS 36 Impairment of assets*. The components of the centralised systems attributable to the operating groups of the above mentioned discontinued reportable segments were subject to an impairment assessment. The centralised software systems are accounted for in the *Other and Eliminations* reportable segment.

An impairment assessment was performed on plant and equipment accounted for in Aveng Moolmans. Aveng Moolmans falls under the *Mining* reportable segment. The impairment assessment was triggered by the underutilisation of these assets.

Impairment charges were recognised on the Group's investments in Oakleaf Investment Holdings 86 Proprietary Limited, Steeledale Proprietary Limited and Specialised Road Technologies Proprietary Limited. The total impairment charge for the year in relation to equity-accounted investments amounted to R195 million.

Determination of the recoverable amount

CGUs of the Group and goodwill arising on consolidation

Management determined the recoverable amounts of all CGUs within the *Construction and Engineering: South Africa and rest of Africa* and *Manufacturing and Processing* segments to be the fair value less cost of disposal.

The CGU fair values were all categorised as level 3 per the *IFRS 13 Fair Value Measurement* hierarchy based on the inputs used in the valuation techniques.

The valuation techniques used to determine the fair values of the CGUs were:
- The Enterprise Value EBITDA multiple method ("EV / EBITDA Multiple") (Market approach per *IFRS 13 Fair Value Measurement*); and
- The Discounted cash flow method ("DCF") (Income approach per *IFRS 13 Fair Value Measurement*).

The fair value valuations were determined based on management's past experience, best estimates and the assistance of an independent consultant. The cash flows incorporated in the valuation models were based on the approved budgets for the 2019 financial year, as well as the forecasts until 2021, utilising the following assumptions:

- **EV / EBITDA Multiple valuation method**

  Risk adjusted peer average EBITDA multiples – The Group calculated the average peer EBITDA multiples of local and international competitors adjusted for risks a market participant would incorporate in the valuation. The range of the multiples applied in the CGU impairment assessments was between 1,2x and 4,8x.

- ***DCF valuation method***

  Discount rate – The discount rate used in the DCF valuations is the weighted average cost of capital ("WACC"). The WACC is based on a market-related peer average rate adjusted for entity-specific risks a market participant would incorporate. The discount rate range of the CGU impairment assessments was between 17,0% and 21,2%.

  Terminal value exit EBITDA multiple – The terminal value is calculated by multiplying the terminal EBITDA (EBITDA as forecast for 2021) with the average peer EBITDA multiple of local and international competitors adjusted for risks a market participant would incorporate. The range of the multiples applied in the CGU impairment assessments was between 2,0x and 3,6x.

  Period of projection – The period of projection is impacted by the ability of management to forecast cash flows in the future. Forecasting has been performed for a period of three years with a terminal value exit EBITDA multiple applied to determine the terminal value.

  The cost of disposal, being the incremental costs directly attributable to the disposal of the CGU, comprise primarily financial consulting costs, legal and audit fees. Management used their best estimate in determining the cost of disposal for each CGU based on the complexity of the potential deal, the deal valuation and the costs associated with similar transactions in the past.

Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2018

6. IMPAIRMENTS continued

Sensitivity analysis

The impact on the impairment losses recognised based on sensitivities applied to the assumptions of the valuation methods are as follows:

Assumption	Sensitivity applied	Impact on current impairment charge
EV/EBITDA Multiple valuation method		
Risk adjusted peer average EBITDA multiples	Increase multiple by 0,5x	R31 million decrease
Risk adjusted peer average EBITDA multiples	Decrease multiple by 0,5x	R33 million increase
DCF valuation method		
Discount rate	Increase by 100 basis points	R5 million increase
Discount rate	Decrease by 100 basis points	R3 million decrease
Terminal value exit EBITDA multiple	Increase multiple by 0,5x	R17 million decrease
Terminal value exit EBITDA multiple	Decrease multiple by 0,5x	R17 million increase

Other individual assets in scope of IAS 36

The recoverable amounts of the properties assessed for impairment before classification as Held for Sale were determined as the fair value less cost of disposal. The fair values of the properties were based on the valuation reports compiled by an independent consultant and were based on the future rental cash inflows valuation method. The valuation method incorporates the actual location, type and quality of the properties supported by the terms of any existing lease, other contracts or current market rents for similar properties. The fair values of the properties are all level 3 per the *IFRS 13 Fair Value Measurement* hierarchy.

The recoverable amounts of all other individual assets subject to impairment assessments have been determined as zero.

6.1 Impairment of property, plant and equipment and intangible assets

The total impairment losses for the year per CGU and individual assets are summarised as follows:

	Property, plant and equipment Rm	Intangible assets Rm
CGUs of the Group		
Aveng Grinaker-LTA Civil Engineering	35	–
Aveng Grinaker-LTA GEL	4	–
Aveng Grinaker-LTA Rand Roads	43	–
Aveng Trident Steel	152	–
Aveng DFC	44	56
Aveng Rail	99	5
Aveng Duraset	49	23
Aveng Infraset	364	16
Other individual assets in scope of IAS 36		
Properties prior to classification as Held for Sale	43	–
Corporate assets – Centralised software systems	–	68
Aveng Moolmans – plant and equipment	55	–
	888	168

6. IMPAIRMENTS continued

6.2 Impairment of goodwill arising on consolidation

The impairment assessment of the Aveng DFC CGU lead to the recognition of the following impairment loss:

	Goodwill arising on consolidation Rm
CGUs of the Group	
Aveng DFC	242

CGUs not impaired and not sensitive to impairment

Goodwill arising on consolidation allocated to the McConnell Dowell CGU was subject to the mandatory annual impairment assessment as required by *IAS 36*. The recoverable amount of the CGU, being the value-in-use based on a discount rate of 12%, materially exceeded the carrying amount of the CGU and hence no goodwill impairment loss was recognised in the current year. No goodwill impairment loss was recognised in the prior year.

6.3 Impairments recognised during the year

	2018 Rm	2017 Rm
Goodwill arising on consolidation	**(242)**	–
Intangible assets	**(168)**	(53)
Property, plant and equipment	**(888)**	(225)
	(1 298)	(278)

7. HEADLINE LOSS

	2018		2017	
	Gross of taxation Rm	**Net of taxation Rm**	Gross of taxation Rm	Net of taxation Rm
Determination of headline loss				
Loss for the period attributable to equity holders of parent		**(3 523)**		(6 708)
Impairment of goodwill	**242**	**242**	–	–
Impairment of property, plant and equipment	**888**	**661**	225	221
Impairment of intangible assets	**168**	**168**	53	53
Fair value adjustment on properties and disposal groups classified as Held for Sale	**807**	**807**	–	–
Gain on Steeledale transaction	**–**	**–**	(2)	(2)
Profit on sale of property, plant and equipment	**(47)**	**(34)**	(14)	(13)
Headline loss*		**(1 679)**		(6 449)

** Headline loss is calculated in accordance with Circular 4 / 2018.*

Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2018

	2018 Rm	2017 Rm
8. DEFERRED TAXATION		
Reconciliation of deferred taxation asset		
At the beginning of the year	**1 290**	1 858
Recognised in earnings or loss – current year	**(373)**	(433)
Recognised in earnings or loss – adjustment for prior year	**9**	(38)
Effect of change in foreign tax rate	**(2)**	–
Foreign currency translation movement	**3**	(85)
Reallocation from deferred taxation liability*	**(180)**	(10)
Disposal of subsidiary	**–**	(2)
	747	1 290
Reconciliation of deferred taxation liability		
At the beginning of the year	**(319)**	(266)
Recognised in earnings or loss – current year	**89**	(77)
Recognised in earnings or loss – adjustment for prior year	**–**	13
Reallocation to deferred taxation asset*	**180**	10
Foreign currency translation movement	**1**	1
	(49)	(319)
Deferred taxation asset balance at the year end comprises		
Accelerated capital allowances	**(205)**	(229)
Provisions	**136**	256
Contracts	**136**	51
Other	**(227)**	44
Assessed losses carried forward	**907**	1 168
	747	1 290
Deferred taxation liability balance at the year end comprises		
Accelerated capital allowances	**(10)**	(418)
Provisions	**–**	17
Contracts	**–**	(4)
Other	**(8)**	(85)
Convertible bond	**(32)**	(62)
Assessed losses carried forward	**1**	233
	(49)	(319)

** The reclassifications of deferred tax liabilities to deferred tax assets are as a results of the changes in deferred tax positions of the underlying assets and liabilities.*

8. DEFERRED TAXATION continued

The Group's results include a number of legal statutory entities within a number of taxation jurisdictions.

As at June 2018 the Group had unused taxation losses of R12 830 million (2017: R13 201 million) available for offset against future profits. A deferred taxation asset has been recognised in respect of R3 107 million (2017: R4 949 million) of such losses. No deferred taxation asset has been recognised in respect of the remaining R9 724 million (2017: R8 252 million) due to the uncertainty of future taxable profits in the related legal entities.

Unused tax losses

The Group performed a five-year forecast for the financial years 2019 to 2023, which is the key evidence that supports the recognition of deferred taxation assets. The forecast specifically focused on Aveng Africa Proprietary Limited and Aveng Australia Holdings.

In addition, in terms of the strategic review the Group is making good progress in positioning Aveng for future profitability, including considerable restructuring and right sizing of the business in line with current market conditions. Attention has been given to the commercial and risk management processes and pre-tender assessments. This will enhance margins in the foreseeable future.

	2018 Rm	2017 Rm
9. AMOUNTS DUE FROM / (TO) CONTRACT CUSTOMERS		
Uncertified claims and variations (underclaims)*[1]	**1 646**	1 760
Contract contingencies	**(490)**	(701)
Progress billings received (including overclaims)[2]	**(1 404)**	(1 205)
Uncertified claims and variations less progress billings received	**(248)**	(146)
Contract receivables[3]	**2 602**	3 262
Provision for contract receivables	**(2)**	(2)
Retention receivables[4]	**208**	149
	2 560	3 263
Amounts received in advance[5]	**(85)**	(146)
	2 475	3 117
Classified as Held for Sale – transferred out (net)	**(305)**	–
Net amounts due from contract customers	**2 170**	3 117
Disclosed on the statement of financial position as follows:		
Uncertified claims and variations*	**1 646**	1 760
Contract contingencies	**(490)**	(701)
Contract and retention receivables	**2 810**	3 411
Provision for contract receivables	**(2)**	(2)
Classified as Held for Sale – transferred out	**(654)**	–
Amounts due from contract customers	**3 310**	4 468
Progress billings received	**(1 404)**	(1 205)
Amounts received in advance	**(85)**	(146)
Classified as Held for Sale – transferred out	**349**	–
Amounts due to contract customers	**(1 140)**	(1 351)
Net amounts due from contract customers	**2 170**	3 117

** Provisions have been netted off against uncertified claims and variations.*

Included in amounts due from contract customers are non-current amounts of R661 million (2017: R756 million).

Amounts due from contract customers include R942 million (2017: R908 million) which is subject to protracted legal proceedings.

[1] *Includes revenue not yet certified – recognised based on percentage of completion / measurement and agreed variations, less provisions and deferred contract costs.*

[2] *Progress billings are amounts billed for work performed above revenue recognised.*

[3] *Amounts invoiced still due from customers.*

[4] *Retentions are amounts invoiced but not paid until the conditions specified in the contract are fulfilled or until defects have been rectified. These conditions are anticipated to be fulfilled within the following 12 months.*

[5] *Advances are amounts received from the customer before the related work is performed.*

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10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

As disclosed in *note 4: Discontinued operations*, the outcome of the strategic review lead to the Board's decision to exclude the following reportable segments from the Group's long-term strategy:

- *Construction and Engineering: South Africa and rest of Africa; and*
- *Manufacturing and Processing.*

These non-core reporting segments are presented as separately identifiable disposal groups and are disclosed as discontinued operations in the Group's Statement of comprehensive earnings (refer to *note 4: Discontinued operations* and *note 5: Segmental Report*). As the disposals are expected to occur within the next 12 months, the assets and liabilities were classified as Held for Sale. The proceeds from the disposals are expected to equal the net carrying amounts.

The assets and liabilities of the disposal groups were allocated to their cash-generating units ("CGUs") and subject to an impairment assessment prior to classification as Held for Sale. The recoverable amounts of all the CGUs were assessed as the fair values less cost of disposal (refer to *note 6: Impairments*). The carrying amounts of some of the assets in relation to the Manufacturing and Processing disposal group, exceeded their fair values less cost of disposal after being classified as Held for Sale. An adjustment was recognised to present these assets at their fair values less cost of disposal.

Individual properties accounted for under the *Other and Eliminations* reportable segment were classified as Held for Sale during the current year. The carrying amounts of some of these properties exceeded their fair values less cost of disposal prior to being classified as Held for Sale leading to the recognition of impairment losses, refer to *note 6: Impairments* for further details regarding disclosures in terms of *IFRS 13 Fair Value Measurement*.

A single vessel, being a self-elevating barge used on projects in Singapore and accounted for in the *Construction and Engineering: Australasia and Asia* reportable segment, was deemed to be surplus to the operational requirements of the entity and subsequently advertised and classified as Held for Sale. Offers are being sought from interested parties via specialist brokers of marine vessels. The disposal of the asset is expected within the next 12 months. The recoverable amount of the asset has been assessed and exceeds its carrying amount.

The process relating to the disposal of the Vanderbijlpark property has extended beyond 12 months from classification as Held for Sale. A reassessment of the asset's fair value less cost of disposal was performed at year end. An external valuation was performed on the property and a fair value adjustment of R73 million was recognised in order to present and disclose the asset at its fair value less cost of disposal. The extension of the property's classification as Held for Sale beyond 12 months is supported by its disposal to an external party after year end. The valuation of the property was performed by an independent consultant and based on the future rental cash inflows valuation method. The valuation method incorporates the actual location, type and quality of the property supported by the terms of any existing lease, other contracts or current market rents for similar properties. The fair value of the property was assessed as level 3 per the *IFRS 13 Fair Value Measurement* hierarchy.

	2018 Rm	2017 Rm
Assets Held for Sale	**4 773**	122
Liabilities Held for Sale	**(4 080)**	–
	693	122
Movement during the year		
Opening balance	**122**	1 237
Transferred from / (to):		
Non-current assets	**874**	(39)
Current assets	**3 850**	(75)
Non-current liabilities	**(65)**	–
Current liabilities	**(3 281)**	181
Disposals of:		
Assets Held for Sale	**–**	(1 248)
Liabilities Held for Sale	**–**	66
Adjustment to fair value less cost of disposal*	**(807)**	–
Net assets Held for Sale	**693**	122

No impact on other comprehensive income in the current year.

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

As at 30 June 2018, the disposal groups and individual assets classified as Held for Sale were stated at fair value less costs to sell and comprised of the following:

	2018						
	Construction and Engineering: South Africa and the rest of Africa – Disposal group Rm	Manufacturing and Processing – Disposal group Rm	Properties – Vanderbijlpark Rm	Properties – Jet Park Rm	Properties – Other Rm	Construction and Engineering: Australasia and Asia – Marine vessel Held for Sale Rm	Total Rm
ASSETS							
Non-current assets							
Intangible assets	–	51	–	–	–	–	51
Property, plant and equipment	282	110	43	128	53	99	715
Equity-accounted investments*	32	–	–	–	–	–	32
Infrastructure investments	125	–	–	–	–	–	125
	439	161	43	128	53	99	923
Current assets							
Inventories	44	1 746	–	–	–	–	1 790
Derivative instruments	–	6	–	–	–	–	6
Amounts due from contract customers	618	36	–	–	–	–	654
Trade and other receivables	100	1 300	–	–	–	–	1 400
	762	3 088	–	–	–	–	3 850
TOTAL ASSETS	1 201	3 249	43	128	53	99	4 773
LIABILITIES							
Non-current liabilities							
Borrowings and other liabilities	–	12	–	–	–	–	12
Employee-related payables	46	7	–	–	–	–	53
	46	19	–	–	–	–	65
Current liabilities							
Amounts due to contract customers	347	2	–	–	–	–	349
Borrowings and other liabilities	–	10	–	–	–	–	10
Employee-related payables	100	59	–	–	–	–	159
Trade and other payables	1 112	1 651	–	–	–	–	2 763
	1 559	1 722	–	–	–	–	3 281
Provision for unallocated fair value adjustments	–	734	–	–	–	–	734
TOTAL LIABILITIES	1 605	2 475	–	–	–	–	4 080
Net assets Held for Sale	(404)	774	43	128	53	99	693

The investment in Oakleaf Investment Holdings 86 Proprietary Limited classified as Held for Sale is disclosed and presented under the Construction and Engineering: South Africa and the rest of Africa reporting segment disposal group as it forms part of the Aveng Capital Partners investment portfolio.

Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2018

	2018 Rm	2017 Rm
11. BORROWINGS AND OTHER LIABILITIES		
Borrowings held at amortised cost comprise		
Total borrowings as at year end	**3 309**	3 066
Classified as Held for Sale – transferred out	**(22)**	–
	3 287	3 066
Interest bearing borrowings comprise:		
Payment profile		
– within one year	**599**	1 121
– between two to five years	**2 688**	1 945
	3 287	3 066
Interest rate structure		
Fixed and variable (interest rates)		
Fixed – long-term	**1 946**	1 901
Fixed – short-term	**305**	348
Variable – long-term	**742**	48
Variable – short-term	**294**	769
	3 287	3 066

11.1 Borrowings held at amortised cost

Description	Terms	Rate of interest	2018 Rm	2017 Rm
Convertible bond of R2 billion	Interest coupon is payable bi-annually until July 2019	Coupon of 7,25%	**1 929**	1 823
Revolving credit facility	Repayable June 2020	JIBAR plus 3,00% to 5,75%	**700**	–
Short-term facility of AUD10 million****	Settled September 2017	Bank bill swap rate plus 0,70%	**–**	101
Short-term facility of AUD60 million***	Settled September 2017	Bank bill swap rate plus 2,20%	**–**	603
Super senior liquidity facility	Repayable February 2019	South African Prime plus 2,50% to 5,50%	**255**	–
Short-term facility of AUD6 million	Repayable July 2018	Fixed interest rate of 4,63%	**62**	–
Term loan facility denominated in ZAR	Monthly instalments ending April 2021	Fixed interest rate of 10,58%	**48**	66
Finance lease facility of AUD12 million*	Monthly instalments ending November 2020	Fixed interest rate of 4,5%	**118**	145
Finance sale and lease back amounting to AUD2 million*	Settled December 2017	Fixed interest of 5,15% to 6,08%	**–**	24

11. BORROWINGS AND OTHER LIABILITIES continued

11.1 Borrowings held at amortised cost continued

Description	Terms	Rate of interest	2018 Rm	2017 Rm
Hire purchase agreements amounting to AUD2 million*	Monthly instalments ending November 2023	Fixed interest of 1,35% to 7%	**24**	42
Hire purchase agreement amounting to AUD0,5 million*	Settled August 2017	Fixed interest rate of 6,81%	**–**	5
Hire purchase agreement denominated in USD*	Settled September 2017	Fixed interest rate of 4,58% to 4,65%	**–**	44
Hire purchase agreement denominated in ZAR*	Settled December 2017	South African prime less 2,00%	**–**	16
Hire purchase agreement denominated in ZAR*	Settled November 2017	South African prime plus 2,00%	**–**	21
Hire purchase agreement denominated in ZAR*	Monthly instalments ending November 2019	South African prime less 1,70%	**29**	51
Hire purchase agreement denominated in ZAR*	Settled in May 2018	Fixed interest rate of 9,70%	**–**	24
Finance lease facility denominated in ZAR*	Monthly instalments ending December 2018	South African prime	**2**	4
Hire purchase facility denominated in USD*	Monthly instalments ending August 2021	Fixed interest rate of 6,68%	**63**	74
Finance lease facilities denominated in ZAR*	Monthly instalments ending August 2022	South African prime	**19**	20
Hire purchase agreement denominated in ZAR*	Monthly instalments ending August 2020	South African prime plus 0,50%	**18**	–
Hire purchase agreement denominated in ZAR*	Monthly instalments ending September 2018	Fixed interest rate of 12,50%	**5**	–
Hire purchase agreement denominated in ZAR*	Monthly instalments ending August 2020	South African prime plus 3,00%	**32**	–
Interest-bearing borrowings			**3 304**	3 063
Interest outstanding on interest-bearing borrowings**			**5**	3
Classified as Held for Sale – transferred out			**(22)**	–
Total interest-bearing borrowings			**3 287**	3 066

* *These borrowings and other liabilities are finance leases.*
** *Interest outstanding in the current year relates to finance leases.*
*** *Backed by a bank guarantee.*
**** *Secured by cash collateral in South Africa.*

Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2018

11. BORROWINGS AND OTHER LIABILITIES continued

11.1 Borrowings held at amortised cost continued

Subsequent to year end, the Group entered into two lending facility agreements (refer to *note 15: Events after reporting period and pending transactions*) comprising:

- A revolving credit facility of R253 million repayable on 30 September 2020 with an implied interest rate of 13,99%; and
- A term loan facility of R207 million repayable on 30 June 2020 at an interest rate of JIBAR plus 5,02%.

	2018 Rm	2017 Rm
Finance lease liabilities are payable as follows*:		
Minimum lease payments due		
– within one year	**149**	206
– in two to five years	**191**	184
Less: future finance charges	**(25)**	(38)
Present value of minimum lease payments	**315**	352

**Includes finance lease liabilities of R22 million classified as Held for Sale.*

The *Construction and Engineering: Australasia and Asia* operating segment enters into asset-based finance arrangements to fund the acquisition of various items of plant and machinery.

The total asset-based finance facilities amounted to AUD21 million (2017: AUD6 million). The amount outstanding on these facilities as at year end was AUD14 million (2017: AUD3 million) and is equivalent to R142 million (2017: R31 million). These asset-based arrangements were secured by plant and equipment with a net carrying amount of R75 million (2017: R52 million).

The *Mining* operating segment entered into various asset-based finance lease agreements to purchase operating equipment denominated both in USD and ZAR. These arrangements are secured by the assets for which the funding was provided and are repayable in monthly and quarterly instalments with the final repayment to be made in August 2022. The total amount outstanding on these facilities amounted to R133 million (2017: R317 million).Equipment with a net carrying amount of R231 million (2017: R494 million) has been pledged as security for the facility.

The *Mining* and *Manufacturing and Processing* operating segments entered into various vehicle lease arrangements. Equipment with the net carrying amount of R20 million (2017: R3 million) has been pledged as security.

11. BORROWINGS AND OTHER LIABILITIES continued

11.2 Convertible bonds

	Convertible bond liability Rm	Convertible bond equity reserve Rm	Total Rm
2018			
Opening balance	**1 823**	**268**	**2 091**
Coupon bi-annual payment	**(145)**	**–**	**(145)**
Interest determined with the effective interest rate*	**251**	**–**	**251**
Accrual of coupon interest for convertible bond	**145**	**–**	**145**
Unwinding of liability owing to:			
– Transaction costs capitalised	**9**	**–**	**9**
– Effect of fair value adjustment of derivative liability	**8**	**–**	**8**
– Effect of fair value of conversion option	**89**	**–**	**89**
	1 929	**268**	**2 197**
2017			
Opening balance	1 731	268	1 999
Coupon bi-annual payment	(145)	–	(145)
Interest determined with the effective interest rate*	237	–	237
Accrual of coupon interest for convertible bond	145	–	145
– Transaction costs capitalised	8	–	8
– Effect of fair value adjustment of derivative liability	6	–	6
– Effect of fair value of conversion option	78	–	78
	1 823	268	2 091

**Interest on convertible bond.*

During July 2014, the Company issued convertible bonds denominated in South African Rand with a nominal value of R2 billion and a coupon of 7,25%. Interest is payable bi-annually for a period of five years with the bond repayment date being five years from issue date at par plus interest. The effective interest rate associated with the convertible bond liability is 13,6%.

Refer to *note 15: Events after the reporting period and pending transactions* for detail regarding the early redemption of the convertible bonds.

Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2018

		2018 Rm	2017 Rm
12.	**TAXATION**		
	Major components of the taxation expense		
	Current		
	Local income taxation – current period	**1**	42
	Local income taxation – recognised in current taxation for prior periods	**(1)**	21
	Foreign income taxation or withholding taxation – current period	**141**	30
	Foreign income taxation or withholding taxation – recognised in the current taxation for prior periods	**9**	(2)
		150	91
	Deferred		
	Deferred taxation – current period	**283**	510
	Deferred taxation – arising from prior period adjustments	**(9)**	25
	Deferred taxation – foreign tax rate change	**2**	–
		276	535
		426	626

	2018 %	2017 %
Reconciliation of the taxation expense		
Effective taxation rate on earnings	**(13,8)**	(10,2)
Exempt income and capital profits	**(0,8)**	0,1
Deferred taxation asset not recognised	**25,1**	37,6
Disallowable charges*	**17,8**	1,7
Prior year adjustment	**0,0**	0,3
Foreign tax rate differential and other	**(0,3)**	(1,6)
Withholding taxation	**0,0**	0,1
	28,0	28,0

* *This relates mainly to the impact of the impairments of goodwill which is treated as a non-deductible expense.*

South African income taxation is calculated at 28% (2017: 28%) of the taxable income for the year. Taxation in other jurisdictions is calculated at the prevailing rates.

	2018 Rm	2017 Rm
13. NON-CASH AND OTHER MOVEMENTS		
Earnings from disposal of property, plant, equipment and vehicles	**(129)**	(147)
Gain on Steeledale transaction	**–**	(2)
Impairment loss on goodwill, intangible assets and property, plant and equipment	**1 298**	278
Impairment loss on equity-accounted investments	**195**	–
Fair value adjustment on properties and disposal groups classified as Held for Sale	**807**	–
Unrealised foreign exchange losses on borrowings and other liabilities	**3**	–
Other fair value adjustments	**–**	(56)
Movements in foreign currency translation	**(11)**	(562)
Movement in equity-settled share-based payment reserve	**8**	12
Other non-cash items	**6**	–
Claims write-down	**–**	4 967
	2 177	4 490

	2018 Rm	2017 Rm
14. CONTINGENT LIABILITIES		
Contingent liabilities at the reporting date, not otherwise provided for in the consolidated financial statements, arise from performance bonds and guarantees issued in:		
South Africa and rest of Africa		
Guarantees and bonds (ZARm)	**2 155**	3 014
Parent company guarantees (ZARm)	**509**	507
	2 664	3 521
Australasia and Asia		
Guarantees and bonds (AUDm)	**287**	326
Parent company guarantees (AUDm)	**337**	588
	624	914

Claims and legal disputes in the ordinary course of business

The Group is, from time to time, involved in various claims and legal proceedings arising in the ordinary course of business. The Board does not believe that adverse decisions in any pending proceedings or claims against the Group will have a material adverse effect on the financial position or future operations of the Group. Provision is made for all liabilities which are expected to materialise and contingent liabilities are disclosed when the outflows are probable.

Contingent assets

In the prior period, a counterclaim against the Group was awarded to Kenmare Resources to the value of R150 million for Professional Indemnity insurance. The Group has lodged a claim against the insurer to recover this amount.

Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2018

15. EVENTS AFTER THE REPORTING PERIOD AND PENDING TRANSACTIONS

The directors are not aware of any other significant matter or circumstance arising after the reporting period up to the date of this report except as stated below:

15.1 Liquidity, solvency, ongoing funding, rights issue, early redemption of convertible bond, and the going concern assertion

As included in the director's report, and further detailed below, in determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The directors have considered the agreements reached and transactions executed post the year end, the actions taken by the Group, the financial plans and forecasts, including all available information, and are therefore of the opinion that the going concern assumption is appropriate in the preparation of the financial statements. In forming the conclusion, the directors have considered the following:

Funding from South African funding banks

The Group continuously engages with its major funding banks who currently provide various facilities to the Group under existing agreements. Refer to *note 11: Borrowings and other liabilities*. After the year end, the Group concluded a revised Common Terms Agreement with its South African lending banks. Through this process the following were negotiated:

- Renewed facilities including additional funding of R400 million and extended funding terms to 2020;
- The profile for the repayment of capital in specific tranches takes into account the anticipated timing of receipts from disposal of non-core assets per the strategic review; and
- Ongoing compliance with financial covenants including an EBITDA covenant, and a liquidity headroom covenant.

15.2 Rights offer to qualifying shareholders

The Group undertook a renounceable rights offer to raise up to R500 million, qualifying shareholders. The rights offer consisted of 5 000 000 000 rights offer shares in the ratio of 1 199.98772 rights offer shares for every 100 Aveng ordinary shares held at the close of trade on 15 June 2018 and at a price of R0,10 per rights offer share. The total number of rights offer shares subscribed for and excess allocations applied for was 4 931 854 395 rights offer shares, representing 98,6% of the rights offer. An aggregate amount of R493,2 million was raised.

The rights offer shares subscribed for were issued on 2 July 2018, with excess allocation shares issued on 4 July 2018.

15. EVENTS AFTER THE REPORTING PERIOD AND PENDING TRANSACTIONS continued

15.3 Early bond redemption of convertible bond

In terms of the strategic review, the debt levels within the Group were considered to be unsustainable, in particular the convertible bonds which created significant constraints on the Group's liquidity position. The Group redeemed the existing convertible bond on 25 September 2018 through the execution of the following:

- On 3 July 2018, the bondholders agreed to the capitalisation of interest on the bonds and voted to accept the terms of the early bond redemption on 30 August 2018;
- On 10 September 2018, the Group's shareholders passed the required resolutions giving effect to the specific issue of shares at R0,10 per share, equivalent to the rights offer price, to settle the convertible bonds;
- On 17 September 2018, a specific buyback of R657 million of the existing convertible bonds at 70% of the principal amount (a 30% discount) was completed;
- The buyback was funded by a new debt instrument of R460 million, the terms of which will rank pari passu with the bank debt (excluding Super Senior Facilities) under the revised Common Terms Agreement;
- The remaining R1,4 billion bonds were settled through the specific issue of ordinary shares at R0,10 per share on 25 September 2018;
- The Group's gross debt:equity ratio improved to 40% following this transaction.

15.4 Continued disposal of non-core assets

The strategic review identified the non-core business and assets to be sold to improve liquidity. The Group announced on 2 August 2018 that it had entered into agreements to sell its Jet Park and Vanderbijlpark properties for R254 million.

Jet Park property

The Group has entered into a binding term sheet on 2 August 2018 for the sale of its Jet Park offices located in Boksburg to Equites Property Fund Limited for R211,2 million (net of commission). The Group will enter into a triple net lease on the property for a maximum of 24 months, but with the ability for the Group to terminate the lease with three months' notice and market related monthly rental of R1,1 million, subject to an annual escalation of 8%. This sale is only subject to shareholder approval.

Vanderbijlpark property

The Group has accepted an offer of R42,6 million from Stodasat (Proprietary) Limited for the Vanderbijlpark property following an auction process. The transfer is expected to be completed by 30 November 2018, subject to the conveyancing process.

The disposal process for the balance of the non-core businesses and assets remains an overriding priority in the achievement of the strategic plan and significant interest from credible buyers has been received. For most of businesses identified for sale, progress has been made ranging from expressions of interest, through to non-binding offers.

Corporate information

Directors

EK Diack (Executive Chairman and interim CEO),
K Mzondeki*# (Lead Independent Director),
SJ Flanagan*#, MA Hermanus*#, PA Hourquebie*#,
MJ Kilbride*#, AH Macartney (Group CFO),
**Non-executive #Independent*

Company Secretary

Edinah Mandizha

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Company registration number

1944/018119/06

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(Registration number 1944/018119/06)
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Share ISIN: ZAE 000194940
("Aveng", "the Company" or "the Group")

Website

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The Standard Bank of South Africa Limited
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